S. HRG. 99-308

THE FARM CREDIT RELIEF ACT OF 1985

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

ON

S. 1151

TO AMEND THE FEDERAL DEPOSIT INSURANCE ACT

JULY 24, 1985

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THE FARM CREDIT RELIEF ACT OF 1985

WEDNESDAY, JULY 24, 1985

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The committee met at 9:30 a.m., in room SD-538, Dirksen Senate Office Building, Senator Slade Gorton (acting chairman of the committee) presiding.

Present: Senators Gorton, D'Amato, Mattingly, Proxmire, Cranston, Dodd, Dixon, and Sasser.

OPENING STATEMENT OF SENATOR GORTON

Senator GORTON. The purpose of this morning's hearing is to take testimony on S. 1151, the Farm Credit Relief Act of 1985. This morning we will hear from Senators Johnston and Pryor, as well as from individuals and groups representing bankers, farm groups, and others. The committee anticipates taking testimony from Federal regulators in September.

Three members of this committee have cosponsored S. 1151, lending urgency to these hearings. It is clear that what is going on now in the agricultural sector of our economy is not simply a routine credit tightening of the type that farmers and farm bankers have experienced many times in the past. Rather, we are facing a major upheaval which is dramatically altering the face of our farm sector. A litany of discouraging statistics on farm income, land prices, and bank failures provide ample evidence of this. It is the duty of this committee to consider what kind of legislation might represent an appropriate response to these problems.

Senator Dixon's bill is one of several proposals for dealing with the special problems of agricultural lenders. Obviously, bills such as the one Senator Dixon has proposed raise serious questions. There are legitimate questions about the role of the Federal Government in the situation, and concern over whether the proposals threaten the integrity of banking statutes which were enacted for entirely different purposes.

[Copy of proposed bill S. 1151 follows:]

II

99TH CONGRESS
1ST SESSION

S. 1151

To amend the Federal Deposit Insurance Act.

IN THE SENATE OF THE UNITED STATES

MAY 16 (legislative day, APRIL 15), 1985

Mr. DIXON (for himself, Mr. JOHNSTON, Mr. PRYOR, Mr. RIEGLE, and Mr. SASSER) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

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A BILL

To amend the Federal Deposit Insurance Act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Farm Credit Relief Act of 1985".

SEC. 2. (a) Section 13 of the Federal Deposit Insurance Act (12 U.S.C. 1823) is amended by adding at the end thereof the following:

"(j)(1) With the consent of the Corporation, which shall not be unreasonably withheld, and upon the recommendation of the appropriate Federal banking agency or a State bank commissioner or on its own motion, the Corporation may by

order, regulation, or otherwise authorize one or more of the actions referred to in paragraph (2) to be taken by an agricultural bank. The Corporation may not authorize any such action unless—

"(A) such action will enable the agricultural bank to survive, remain viable, and show a net profit; and

"(B) there is no evidence of fraud or gross mismanagement by the management of the agricultural bank.

"(2) The actions which may be authorized under this subsection are as follows:

"(A) The agricultural bank may file financial reports in accordance with regulatory accounting practices, and use push down or purchase method accounting principles.

"(B) The agricultural bank may reappraise its buildings and other tangible property, real or personal, and any increase between fair market value and the book value of such property may be credited to the capital accounts of the agricultural bank.

"(C) The agricultural bank may renegotiate and reamortize on an amortization schedule not to exceed 30 years qualified problem loans owned by the agricultural bank as of January 1, 1985, and additional qualified problem loans renewed or made by the agricultural

bank after January 1, 1985, but prior to January 1, 1995. In the event a renegotiated loan is prepaid or at the maturity of the renegotiated loan, or in the event of default by the borrower in the repayment of the renegotiated loan, or in the event any collateral securing the renegotiated loan is sold without the prior written consent of the agricultural bank, the borrower, at the option of the bank, shall be obligated to repay the principal balance due on the renegotiated loan, plus accrued interest, plus that portion of the difference between the principal of and accrued interest on the qualified problem loan and the beginning principal balance of the renegotiated loan which has not been charged off by the agricultural bank. The terms of the renegotiation and reamortization of the renegotiated loan, including, by way of illustration only, the rate of interest to be charged, shall be at the sole discretion of the agricultural bank. The agricultural bank may charge off the difference between the principal of and accrued interest on the qualified problem loan or loans and the beginning principal balance of the renegotiated loan or loans over a 30-year period.

"(D) The agricultural bank may mark to market the value of any real estate or other property, real or personal, owned by the agricultural bank on January

1, 1985, and any additional property subsequently acquired by the agricultural bank prior to January 1, 1995, and charge off any loss recognized over a 30-year period. Market value may be determined by income approach to value, cost approach, comparable sales approach, or such other acceptable method of valuation.

"(E) With respect to the expenses incurred by the agricultural bank related to the ownership of the real estate or other property referred to in subparagraph (D) above, including, by way of illustration only, the payment of real estate taxes, personal property taxes, insurance premiums, and payments to senior lien holders, the agricultural bank may write off such expenses over a 20-year period.

"(F) The agricultural bank may mark to market and sell any securities held in its investment portfolio as of January 1, 1985, and any additional securities subsequently acquired by the agricultural bank prior to January 1, 1995, and charge off any loss recognized over a 30-year period.

"(3) As a condition of eligibility under this subsection, the agricultural bank must agree to maintain in its loan portfolio a percentage of agricultural loans which is not lower

than the percentage of such loans in its loan portfolio on January 1, 1985.

"(4) As used in this subsection—

"(A) the term 'agricultural bank' means—

"(i) a bank which is located in an agricultural area whose economy is dependent on agriculture;

"(ii) a bank which has assets of $200,000,000, or less; and

"(iii)(I) a bank which has at least 25 percent or more of its total loans in agricultural loans which were made to finance the acquisition of farm real estate or farm equipment and the production of agricultural products or livestock in the United States; or

"(II) a bank which has fewer than 25 percent of its total loans in agricultural loans but which the appropriate Federal banking agency or State bank commissioner may recommend to the Corporation as eligible, or the Corporation, on its own motion, may deem eligible;

"(B) the term 'qualified problem loan' means a loan made to finance the production of agricultural products or livestock in the United States, a loan secured by farm land or farm machinery, or the unin-

sured or unguaranteed portion of any Farmers' Home Administration or Small Business Administration loan serviced by the agricultural bank, or such other category of loans as the appropriate Federal banking agency or State bank commissioner may recommend to the Corporation as eligible, or the Corporation, on its own motion, may deem eligible in order to allow the agricultural bank to remain viable.".

(b) Paragraph (1) of section 172(b) of the Internal Revenue Code of 1954 (relating to net operating loss carrybacks and carryovers) is amended—

(1) by adding at the end thereof the following new subparagraph:

"(L) In the case of a financial institution, a net operating loss for any taxable year beginning after December 31, 1984, with respect to any loan or security which is subject to the provisions of section 13(j) of the Federal Deposit Insurance Act, shall be a net operating loss carryover to each of the 30 taxable years following the taxable year of such loss.",

(2) by striking out "and (k)" in subparagraph (A) and inserting in lieu thereof "(K), and (L)"; and

(3) by striking out "and (J)" in subparagraph (B) and inserting in lieu thereof "(J), and (L)".

Senator GORTON. This committee will consider these questions. Certainly, however, it will engage in this debate with an attitude of compassion and concern for the well-being of our rural citizens, whose livelihoods have been disrupted by the most difficult agricultural period in recent times.

Senator Dixon.

Senator DIXON. Well, Mr. Chairman, I thank you very much for chairing this committee. I thank our ranking member, the distinguished senior Senator from Wisconsin, for attending, and my distinguished colleagues from Louisiana and Arkansas who have joined me as principal sponsors of this legislation.

Mr. Chairman, in the interest of time, I have an extensive statement I'm going to place in the record at this time and later on I will make some contribution in the way of discussion that takes place on this legislation, but at this time I'm very anxious to hear from my colleagues who have honored me by sponsoring this, I think, important piece of legislation for agricultural banks, farmers, and the rural economy. I thank them for being here and joining with me in this effort.

Senator GORTON. Without objection, Senator Dixon's entire statement will be included in the record.

STATEMENT OF SENATOR ALAN DIXON

Senator DIXON. Mr. Chairman, I am pleased to be here this morning as the Banking Committee begins its hearings on S. 1151, the Farm Credit Relief Act which I introduced, together with my distinguished colleagues, Senators Johnston, Pryor, Sasser, and Riegle, on May 16 of this year. As we start, I would like to thank the distinguished chairman of the Banking Committee, Senator Garn, for scheduling this hearing. I would also like to express my appreciation to my colleague from the State of Washington, Senator Gorton, for agreeing to chair the hearing today.

S. 1151 is an attempt to address part of the crisis that is devastating American agriculture and our rural economy. One of the most troubling aspects of this crisis has been the explosion of farm debt. Farmers now owe more than $215 billion, and the simple truth is that too-low prices for agricultural products means that it is more and more difficult for farmers to service that debt.

Farm prices are down, and the value of farm land has dropped by as much as a third or even more. Bankruptcies, however, are way up, and unless we are able to provide some badly needed assistance, the current appalling bankruptcy rate is likely to go much, much higher.

Unless we act, many of our Nation's full-time farmers will be wiped out. Many of these farmers were able to get a crop into the ground this spring, but without help, it's doubtful that many of them will be able to do so next year. The shakiest of these midsized farmers owe nearly a third of total farm debt—over $73 billion—an amount that compares with the Latin American debt held by the Nation's largest banks.

Farm debt, however, unlike foreign debt, is not held largely by money center banks. It is held by the Nation's more than 4,200 ag-

ricultural banks. These banks are small in size, but they are of vital importance to their communities.

While they do not hold the bulk of long-term debt, agricultural banks are a major source of operating and other short-term loans. According to the Comptroller of the Currency, banks hold about $9 billion of the $112 billion in long-term debt, and they hold almost $40 billion, or about 40 percent of the short-term debt. This is a serious problem because while most farmers have the resources to service their mortgage debt, many can no longer also meet their short-term debt obligations.

Agricultural banks are therefore also under serious strains, and the evidence is that their problems are becoming more severe. We had 79 bank failures last year—the highest number since the Great Depression—and a disproportionate number of those failing were agricultural banks. This trend appears to be continuing. Over 1,100 banks—an alltime record—are on the Federal regulators problem list. There have already been 61 bank failures this year, many of which were agricultural banks, and there could be as many as 100 or more before the year is out.

This trend is especially troubling because historically agricultural banks are among the strongest in our financial system. Agricultural banks traditionally have a very strong capital base, and they have followed the kind of prudent banking practices that have protected their depositors.

As strong as they are, however, agricultural banks are not immune from a crisis in the overall agricultural economy. There is no way they could be immune. More than 1,700 banks have more than 50 percent of their portfolios in agricultural loans, and that figure greatly understates the true dimensions of the problem since it does not include loans to agribusiness and other rural businesses dependent on a strong and profitable agricultural sector.

What we need, therefore, are solutions directed toward helping both farmers and the agricultural banks that serve them. It makes no sense to help the banks alone if that help does not permit them to continue to play an active role in their local communities. And farmers clearly need help to restructure their debts so that they are not forced off the land or put in the position of being tenant farmers on what was their land.

The bill my colleagues and I have offered is an attempt to provide assistance and needed flexibility for both farmers and their lenders. It does not pretend to be a complete solution to the problems of either, but it will provide needed transitional assistance as more fundamental, long-term solutions are put into place. We need to make it possible for farm exports to begin expanding again. We need to restore the opportunity to make a profit to American farmers. We need to bring interest rates down to more reasonable levels. But all these things will take time; time that many of our farmers and rural financial institutions do not have unless we are able to act soon on appropriate safety net protections.

S. 1151 ought to be a component of this safety net. It permits banks to negotiate with farmers on appropriate debt restructuring, restructuring that will leave farmers with payments they can meet while bringing the banks greater financial returns than foreclosure would. It helps ensure that farmers aren't forced off their land, and

helps the banks retain customers that they want to retain, customers that they have had a good relationship with over the years and who, with this help, will be good customers again. It does not require any bank to act to restructure loans. It simply permits banks to take actions, with the approval of Federal regulators, that banks believe are in their interests and which will benefit hard-pressed but fundamentally sound farmers.

Current law forces banks to try not to acknowledge the extent of their problems, because any losses in a loan portfolio must be written off against capital at the time they are recognized. Now in normal business conditions that is sound practice. In the current crisis situation in our agricultural economy, however, the pressure on agriculture bank capital it creates is so great that it actually adds to the problems facing both farmers and banks. Losses on agricultural loans can cause reductions in bank capital. That reduction can force a bank to call in more loans, generating more losses, forcing still further reductions in bank capital, and so on, in a destructive cycle that could destroy both the bank and many basically sound American farmers. At the very least, banks may have to withdraw as lenders to their communities with all the problems that the loss of such a major source of credit always causes.

Amortizing the losses, however, creates an incentive for banks to deal with their problems in a way that can help to minimize those losses. I do not suggest this step lightly. I recognize the seriousness of this proposal. But I believe that the only alternative to this kind of package is direct assistance—and with our budget problems, it is difficult to see how that kind of help could be provided.

I will not take additional time to explain the details of the proposal. I would simply like to submit for the hearing record a hypothetical case which illustrates how the bill will work. Let me say in conclusion that this proposal, if enacted, will work to provide needed assistance for American farmers who deserve our help. It will also provide assistance for agricultural banks, who through no fault of their own, are being squeezed by the ongoing agricultural crisis, permitting these fundamentally sound banks to weather this storm. We have provided special assistance for financial assistance in the past, most recently for foreign loans and for the housing industry. I believe American agriculture is just as deserving of this committee's help.

Let me again thank Senators Garn and Gorton for affording me this opportunity today. I look forward to hearing from my distinguished colleagues Senators Johnston and Pryor and to the testimony of the other witnesses who appear here this morning.

A Hypothetical Illustration

Assume farmer owes bank $150,000, but the collateral securing that debt is only worth $60,000. Under this proposal, rather than the farmer defaulting on the loan and losing his farm, the farmer and the bank could renegotiate a new payment schedule and a smaller, written down loan.

A farmer and the bank could agree to write down the loan to $90,000, and create a repayment schedule on that amount that the farmer's cash flow could support. The bank, with the approval of the Federal regulators, decides to write off the $60,000 over 15 years—$4,000 per year—(although the bill would permit write off periods of up to 30 years) which is much better for the bank than taking the write-off all the first year, which is what happens if it has to foreclose on the loan. Fur-

ther, the bank doesn't have to acquire the property, or manage it, and continues its relations with its borrowers.

If the farmer were to default or sell the land, say in year 10, then that farmer would owe the remaining amount on the $90,000 loan plus the amount of the $60,000 that had not been written off (in this case, $20,000).

Senator GORTON. Senator Proxmire.

Senator PROXMIRE. No statement, Mr. Chairman.

Senator GORTON. Senator D'Amato.

Senator D'AMATO. Mr. Chairman, I have a statement that I would like to be placed in the record as if read in its entirety. I commend the Chair for calling these hearings because obviously agriculture, our Nation's leading industry, is in deep distress. Some programming via banking legislation might aid in that distress, and I think such progress is critically important, even to New York. You know, people don't think New Yorkers know much about farming and we may not know that much about it, but I can tell you we are one of the great agricultural States of this Nation, so we are deeply interested.

Senator GORTON. Without objection, Senator D'Amato's entire statement will be included in the record.

STATEMENT OF SENATOR D'AMATO

Senator D'AMATO. Mr. Chairman, I thank you for inviting me to participate in this hearing to discuss the Farm Credit Relief Act of 1985, S. 1151. I commend you for your prompt attention to this legislation, expecially when our agricultural banking community is facing such difficult times.

Recently, the agricultural community in the United States has drawn a great deal of attention. Agriculture, our Nation's No. 1 industry is in a state of crisis. The crisis is intensifying as our farmers are finding it ever more difficult to meet the terms of their outstanding loans. It is estimated that almost one-third of our Nation's farmers are now on the brink of bankruptcy.

Likewise, agricultural banks are experiencing considerable difficulty. In 1984, 32 agricultural banks failed, most during the second half of the year. During all of 1983 there were only seven bank failures. Unfortunately, this trend is likely to continue.

Mr. Chairman, I commend you for holding this hearing. Our Nation's foremost industry is in trouble; it needs our help. We must continue to seek every viable solution.

Senator GORTON. Senator Johnston.

STATEMENT OF J. BENNETT JOHNSTON, U.S. SENATOR, FROM THE STATE OF LOUISIANA

Senator JOHNSTON. Thank you very much, Mr. Chairman. I am very pleased to join with Senators Dixon and Pryor in sponsoring S. 1151, the Farm Credit Relief Act of 1985.

I have a written statement, Mr. Chairman, which I would like to submit for the record.

Senator GORTON. It will be included in the record in full.

Senator JOHNSTON. I would like to make just a few brief comments.

First of all, your original statement pointed out that the crisis in agricultural banks is a severe crisis; it is a different kind of crisis

than the bank crisis elsewhere. If a bank fails because of oil loans, somebody else can come in to pick up the pieces. If a bank fails in an agricultural area, there is a very good chance that there will be no bank to take its place because the only business in many of these rural counties, or parishes as we call them in Louisiana, is agriculture. So if the bank fails, the whole financial community is down the drain and there will be nothing to take its place.

S. 1151 IS A VERY USEFUL TOOL

Now, Mr. Chairman, let me say that this bill is a tool, and a very useful tool, that can be used by the FDIC and by agricultural banks to aid farmers and to allow these financial institutions to survive. There is nothing mandatory about this bill. I would like to emphasize that because I know that the FDIC will later testify on this and I hope that they will testify in favor of the bill. Again, the important thing to recognize is that there is not a word in this bill that requires the FDIC to take action. It is strictly a permissive tool with respect to the FDIC.

Now, what is the problem with the farmer today? The problem with the farmer is that he has too much debt. When we had the agricultural relief legislation on the floor of the Senate earlier this year we fought over the question of whether we could afford to give the farmer additional credit. I supported that bill; however, my real objection to the legislation was that what the farmer needs today is not more credit, rather what he needs is lower debt because if you give him more credit and he does not have the cash-flow to pay that off, then you are simply putting off the day of reckoning.

Now, what this bill does is to give the farmer the chance to get that debt down, to get it down so that it can match his cash-flow. And, after all, if you can get the farmer's cash-flow down so he can keep his land and continue to make a crop, that is obviously the end of everything we want to do here.

That sounds deceptively simple. We can get the farmer's debt down and not cost the Government a cent. Now how do we do that? We do it by helping agricultural banks and again, without costing the Government a cent. The problem with so many of the agricultural banks is that they have these farms out there that cannot service their loans. They are good farmers. They make good crops. But their debts have gotten too big for their cash-flow. So what this bill does is permits the agricultural bank to negotiate with that farmer and to reduce his debt down to where the cash-flow can service it.

Now what is in it for the bank? A lot. What the bank gets to do is that amount that they write down they can keep on their statement and write it off for the purpose of the debt-to-equity ratio, over a period of 30 years or such lesser period as they negotiate. In other words, so many agricultural banks today can make it. They have the cash-flow to support themselves, but under the FDIC rules their debt-equity ratios are too thin now and therefore they are being called upon to put additional cash in.

Now, how does S. 1151 help the FDIC? Well, if the FDIC is in the position of having to make the cash call, that is, the capital call on

the bank, and they know that the bank is going to go under, the FDIC must buy those loans at 100 percent of value. If the FDIC then calls in these loans that are nonperforming the value of agricultural land—which in some of these Midwestern States was once worth as much as $3,000 an acre—suddenly decreases in value by as much as 60 percent. And let me tell you, the real crisis in this country in agriculture will be when and if banks are called upon to test the market through the bankruptcy courts and through sheriff's sales to determine what that land is really worth. This test will occur because if all the land is put up for sheriff's sale at the same time, or a large part of it is put up for sheriff's sale at the same time, nobody is going to buy it and the very bottom is going to fall out of agriculture.

That is when we will have the real crisis in agriculture.

So what this bill does is to permit the FDIC, if a bank meets the test—and the test as I recall is that the bank would have a better chance of surviving with this help than without it—to allow the bank to write down its loans over a longer period of time than allowed under current law. If the FDIC says, no, this is a bad financial practice; or this is going to set the scene for runs on banks because they will be shaky banks, then the FDIC does not have to allow the bank to do it.

AGRICULTURE IS IN A DOWN CYCLE

But in this country agriculture has always been a cyclical business. We are on the down cycle now and I think it will be a while before we will be on the up cycle again. Therefore, it seems to me that we have a real obligation to do what we can to help the farmer survive and to help the agricultural banks to survive while we are on the down part of that cycle. And they can survive because these farms continue to make crops and continue to be productive. However, they cannot support through their cash-flow a large percentage of their debt. Therefore, if the bank is willing to write the debt down, why not let that bank have the benefit of keeping that on its capital-equity ratio for a longer period of time so that it does not have to make that capital call? If the FDIC has no choice but to make the capital call, you are going to sink these banks and I can tell you there are some rural parishes in Louisiana right now that when the bank closes, then—I will not say the parish closes down, but the financial ability—the ability of people who live in those parishes to have a financial institution to serve them will be gone because nobody is going to come back in those parishes and open up a bank with those same farmers.

The best chance of keeping the financial institution, the best chance of having agriculture survive as we know it today, is to do it with these banks and these farmers and not flush them out through the bankruptcy process and try to start all over again. If you start all over again, it will be a new set of players that will undoubtedly be in agribusiness.

It is not too much to say that this bill gives the family farm a chance to survive. You might even say that it gives the family agricultural bank a chance to survive because that is what a lot of these agricultural banks are. They are not huge monoliths of New

York financial institutions with international connections. No, they are small banks. They have been in these parishes for a long time servicing the same farmers. They know the farmers. They know the land. They know the business. They know the property. And if we give them a little chance with a little time without making capital calls, they can survive and the farmers as well can survive.

I thank you very much, Mr. Chairman. If there are any questions I will be glad to answer them.

[The complete prepared statement follows:]

TESTIMONY OF SENATOR J. BENNETT JOHNSTON ON
S. 1151, THE FARM CREDIT RELIEF ACT OF 1985
JULY 24, 1985

Mr. Chairman and members of the Committee, our nation's 4,100 farm banks account for 27 percent of all banks. Yet, in the fourth quarter of 1984, these banks accounted for 61 percent of all bank failures. The percentage of farm bank failures has been escalating at an alarming rate. For example, in 1983, farm banks only accounted for 13 percent of all bank failures. This percentage increased to 19 percent for the first half of 1984; to 35 percent in the third quarter of 1984 and to 61 percent for the fourth quarter of 1984.

The reason for this dismal picture can be traced to declining farm prices and the strength of the dollar abroad. U.S. economic policy has caused the value of the dollar to increase 80 percent since 1980. While this has benefited some U.S. industries, it has contributed to the $135 billion U.S. trade deficit and it has created havoc for the farm community. For example, economists estimate that a 40 percent rise in the value of the dollar costs U.S. producers $2 per bushel of soybeans, 48 cents per bushel of corn and 80 cents per bushel of wheat. This comes to $11 billion on just three commodities. Losses of this magnitude make it difficult to impossible for farmers to meet their financial obligations and threatens the continued viability of our nation's agricultural banks.

Mr. Chairman, it seems to me that under the present state of affairs what we are going to have is an ever increasing number of bankruptcies. When that happens, many communities are going to

be deprived altogether of access to a financial institution. Others are going to be deprived of adequate access to credit and farmers will not be able to carry on their agricultural business.

In other words, Mr. Chairman, it is in the national interest to allow these agricultural banks to survive if at all possible. If they go under, then the FDIC, as I understand it, must buy their portfolios at the stated price; that is, the price at which the bank loaned the money plus accrued interest. The FDIC will then liquidate the loan by putting all of the farm properties that secure the loan up for sheriff's auction. The sheriff will then liquidate the farm without attempting to carry on the business of agriculture and without regard to the economic condition of the local community.

On the other hand, Mr. Chairman, if the bank is allowed to survive, the bank is able to keep the collateral, which will undoubtedly be farm acreage and farm machinery. It generally then leases the collateral back to the farmer at a reduced amount so that the farmer can continue in business. Undoubtedly, this is not an ideal situation for the farmer because his debt is not formally liquidated. But, as a practical matter, when the bank stays in business, it will not put the farmer on the sheriff's auction block, but rather, will work with the farmer so that the farmer can stay in business.

Mr. Chairman, while I do not believe that Congress should bail out rural banks, I do believe it should find a way to keep those banks in business, because when they stay in operation the

farmers and rural communities that depend on them also stay in business. To the extent that you shut the doors of these financial institutions, you close the door on the ability of the farmer to put his crop in the ground, you close the door on the ability of local merchants to get the credit they need, and, in effect, you padlock wholesale communities throughout rural America.

Consequently, Mr. Chairman, I was pleased to join with Senators Dixon, Pryor, Riegle and Sasser in introducing S. 1151, the Farm Credit Relief Act of 1985. I believe this bill represents one possible approach to alleviating the crisis that is facing rural America and her financial institutions.

Mr. Chairman, the main provision of this bill would allow banks to capitalize write-downs of agricultural loans from their book value to their current fair market value. Banks would then be able to renegotiate payment of that part of the loan that is not written-off. That section of the loan that is written-off would be amortized over a period of up to 30 years. In the event the farmer sold the underlying property or defaulted on the loan, the farmer would be liable to repay the balance of the reamortized loan plus that portion of the original loan that was forgiven but which has not yet been written-off by the bank.

Mr. Chairman, this relief would be available to any bank with assets of $200 million or less, provided that at least 25 percent of its loan portfolio consists of agricultural loans. Furthermore, the FDIC would have authority to qualify banks that have slightly less than 25 percent agricultural loans. To assure that a qualifying bank continues to service rural America, it

would have to agree to maintain in its loan portfolio a percentage of agricultural loans which is not lower than the percentage of such loans in its portfolio on January 1, 1985.

Finally, Mr. Chairman, S. 1151 would also permit eligible banks to engage in the following practices:

-- The bank may file financial reports in accordance with regulatory accounting practices; and use push down accounting principles;

-- The bank may reappraise its buildings and other tangible property, real or personal, and any increase between the fair market value and the book value of such property may be credited to the capital accounts of the agricultural bank;

-- The bank may mark to market the value of any real estate or other property, real or personal, owned by the agricultural bank on January 1, 1985, as well as any additional property acquired in the next ten years. It may then charge off any loss recognized over a 30-year period;

-- The bank may amortize over 20 years the expenses that are related to the ownership the the property on its books; and

-- The bank may mark to market and sell any securities held in its portfolio as of January 1, 1985, or any securities acquired during the next ten years. Any loss recognized on such securities could be written off over a 30-year period.

Mr. Chairman, the beauty of this bill is that it will benefit both farmers and banks and it will not cost the Treasury one dime. In fact, by improving the financial status of banks, it may actually be a revenue enhancer. Let me briefly explain what I mean. Banks will benefit because they will be able to write down their troubled agricultural loans and amortize the loss over a 30-year period; current law requires such losses to be written off in the year the loss was incurred. By stretching out the loss, agricultural banks, which generally are well capitalized, will be able to continue to offer vital services to rural America.

Farmers will benefit because problem loans would be written down to a level that they can repay. Therefore, it will reduce the number of farm bankruptcies and will enable farmers to retain an equity interest in their property.

The ultimate beneficiary, Mr. Chairman, would be the American people. By limiting the amount a bank may write off in a year, you increase the likelihood that the bank will be subject to tax liability; thus the bill could be a revenue raiser. By refinancing loans at a level that farmers can repay, we assure ourselves that the agricultural community will continue to provide America with its daily food requirements.

In conclusion, I firmly believe that agricultural America cannot survive as we know it without the survival of its banks. Therefore, I strongly support S. 1151 and I urge the Committee to expeditiously report it to the full Senate. I will be pleased to answer any questions the Committee may have.

Thank you.

Senator GORTON. Senator Pryor.

STATEMENT OF DAVID PRYOR, U.S. SENATOR FROM THE STATE OF ARKANSAS

Senator PRYOR. Thank you, Mr. Chairman and members of the committee, for allowing me to testify on behalf of Senator Dixon's bill this morning. I very much appreciate this chance. I will just make three or four points. I will not read my statement, but I would ask that it be made a part of the record.

Senator GORTON. It will be included in the record.

Senator PRYOR. The interdependence of commercial banks and their customers is especially strong in the rural communities throughout America. Many of those farmers and many of those banks today are in danger of collapse. The Farm Credit System as we know it is in grave danger today, and no other sector of our economy is as dependent on credit as is the farmer.

PRESENT CONDITIONS OF FARMERS

Today, there are 4,300 farm banks in the United States. Those are banks with at least 25 percent of their loans in agriculture. These banks, by and large, have a special and unique relationship with the farmers in their area and in their neighborhood, a relationship which might not exist in many of the larger banks in our country. A banker and a farmer in a small rural area have probably grown up together. They probably attend church together. Their sons probably play football and basketball together. The banker knows if that farmer is a good or bad credit risk, and he extends credit accordingly. That has been the historic relationship of the rural banker and the farmer.

Due to factors beyond that farmer's control, low commodity prices have left him with little income to pay off money that he borrowed in the late 1970's. What is more, declining land prices—Senator Johnston has mentioned this this morning—have eroded collateral values on that farm land dramatically. The farm debt crisis therefore seems to be as much a bank problem as a farm problem.

Mr. Chairman, I do believe that Senator Dixon's bill that is before the committee this morning provides the most reasonable approach to this problem. The authors of this legislation have taken extreme pain to weed out what we considered to be the major objections that might be raised to such legislation.

First, it is not a bank bailout bill. It is not a farm bailout bill. We prefer to call it the Rural Economy Survival Act of 1985. S. 1151 has some very attractive and appealing elements:

One, qualified banks would be carefully determined by both local and Federal regulators; two, poorly run banks would not be eligible; three, the bill takes a very realistic approach to bad debt by using the actual value of assets; four, bank losses can be spread out over a longer period of time; five, the writeoff is in line with accepted accounting practices; six, there is precedent for this approach in our response to the savings and loan crisis of 1982 where the Congress took action; and seven, most important, it does not

cost the Government of this country a dime, in contrast to some interest rate buydown proposals.

Mr. Chairman, I am far from an expert on accounting or banking, and I will gladly leave these intricate, complex matters to the able members of this committee who will, I'm sure, make their usual thorough examination of this legislation. I am a member of the Finance and Agriculture Committees, which have spent countless hours struggling with the production and trade questions which relate to the agricultural crisis in America.

Our work is going to be fruitless, however, if the domestic underpinning of our farm economy is allowed to collapse. Senator Dixon's bill may not be a perfect solution, but I believe it is a concept well worth studying, and I want to thank the committee for the time and attention it has given myself and other authors this morning.

I would like to just add that next week the majority leader has scheduled for the floor of the Senate the agriculture bill of 1985. It is my opinion at this time—and this view may be shared by other members of the Agriculture Committee—that that bill is not going to be ready to bring to the floor next week.

The next best thing that we could take quick action on is the Dixon legislation. That would be a strong signal to the rural banks of America, to the farmers of America, to the entire farm sector—that not only do we care, not only are we concerned, but more importantly, we are stepping into the breach, we are taking action, and we are proposing a piece of legislation that will help our entire economy by giving direct assistance to the farmers and bankers.

I have used this example a time or two. A farmer gave me a canceled check, Mr. Chairman, that he paid his income taxes with. I don't know if I've shown this to you or not. This check was written February 28, 1974, and it was a check to the Internal Revenue Service for $81,173.53. That was his tax that year. 1974 was the last year that that farmer has paid income tax to the Federal Government.

What we are attempting to do now is try to help the farmers of our country get back on the rolls as taxpayers. They want to. And, Mr. Chairman, I respectfully submit—and members of the committee—that we think this approach is sound, is reasonable, and is a partial answer to the problems that we face today.

I thank you very much.

[The complete prepared statement follows:]

TESTIMONY BY SENATOR DAVID PRYOR

ON THE FARM CREDIT RELIEF ACT

July 24, 1985

Mr. Chairman, I appreciate this opportunity to come before the Committee to discuss an issue which is very important in Arkansas and in most other states around the country—the farm crisis and the effect which it is having on the rural economy. The interdependence of commercial banks and their customers is especially strong in rural communities, and both are in danger of collapse.

No other sector of the economy is as dependent on credit as the farmer. Land, expensive equipment, seed, fertilizer and fuel—all must be financed on the basis of what may be produced later that year. Farmers can sometimes put off paying for a new baler or milking equipment, but fertilizer and seed payments cannot be postponed.

There are 4300 farm banks in the United States (banks with at least 25% of their loans in agriculture). These banks, by and large, have a special and unique relationship with the farmers in their areas, a relationship which does not exist in larger, city banks. The banker and farmer have probably grown up together, played football together. The banker knows if the farmer is a good credit risk and extends credit accordingly. The banker also deals personally with the feed store owner, the farm equipment dealer and the other businesses who depend upon the health of the agricultural economy.

Typically, these banks are quite small and are not linked with urban banks or money center institutions. Banks of less than $25 million in assets extend more than 30% of the total ag credit from banks, and 70% of all ag credit comee from banks of less than $100 million in assets. In my own state of Arkansas, I'm proud to say, out of 252 banks, more than 240 hold agricultural loans. Even if the farmer does not get all of his farm credit from the local bank, he keeps his checking and savings accounts there. Of course, the commercial ag banks hold only 25% of the nation's farm debt, but the portion of the farm debt held by the commercial ag banks represents approximately 50% of the short-term, operating loans.

Due to factors largely beyond the farmer's control, low commodity prices have left him with little income to pay off money that he borrowed in the late 1970's. What's more, declining land prices have eroded collateral values. The farm debt crisis, therefore, seems to be as much a bank problem as a farm problem.

Traditionally, farm banks have been healthier than other banks. They have had better returns on capital and assets and fewer bad loans. Of the 59 bank failures this year, however, 33 have been ag banks, (compared to 25 ag bank failures in 1984), and the Comptroller of the Currency has concluded that ag bank troubles will get worse before they get better.

A few facts illustrate the seriousness of today's problem:

—Farm debt has nearly doubled in the last four years. At the same time farm income fell from $32 billion to $20 billion, and land prices have fallen 15%-25% (or 75% in some areas).

—The number of "classified" ag loans in Arkansas has roughly doubled since last year.

—Earlier this year the Agriculture Department announced that 360,000 of the nation's 2.4 million farmers are in "serious debt trouble," that is, they have committed up to 70% of their available assets as collateral for loans. I suspect the number may be even higher.

—Although ag banks make up roughly one-third of our commercial banks, they account for more than half of all recent bank failures.

In January of this year a farm bank consultant told the Wall Street Journal that approximately 20% of the $210 billion farm debt ($45 billion) would have to be written off. (This is debt held by both banks and Production Credit Associations.) In comparison, the total loan losses for the entire banking system in 1983 was a "mere" $8.4 billion. The FDIC insurance fund now totals $17 billion. The FDIC could probably absorb the several hundred small bank failures predicted by the Independent Bankers Association, but we need to remember that many superbanks have a large agricultural portfolio as well ($2 billion in ag loans by Bank of America.)

I believe that Senator Dixon's bill is a reasonable approach to this problem. It is not a "bank bail-out bill" or a "farm bail-out bill." Rather, I prefer to call it the "Rural Economy Survival Act."

S.1151 has a number of attractive elements:

—Qualified banks would be carefully determined by both local and federal regulators.

—Poorly run banks would be ineligible.

—The bill takes a realistic approach to bad debt by using the actual market value of assets.

—Bank losses can be spread out over a long period of time.

—The write-off is in line with accepted accounting practices.

—There is precedent for this approach in our response to the savings and loan crisis of 1982.

—Most important, it does not cost the government a dime, in contrast to some interest rate buy-down proposals.

Mr. Chairman, I am not an expert on accounting or banking, and I gladly leave those matters to the able members of this committee, who will, I am sure, make their usual thorough examination of this legislation. I am a member of the Finance and Agriculture Committees, which have spent countless hours struggling with the production and trade questions which relate to our agricultural crisis. Our work will be fruitless, however, if the domestic underpinnings of our farm economy are allowed to collapse.

The Dixon bill may not be the perfect solution, but I believe it is a concept well worth studying. I thank the committee for its time and attention.

Senator GORTON. Senator, that's a magnificently eloquent statement, as was that of Senator Johnston. I must say I appreciate having both of you before this committee. I suspect my colleagues will agree with me that we don't have many such eloquent witnesses before the committee.

I have no questions for you except to say that we're going to consider your views very, very carefully.

Senator Dixon.

Senator DIXON. May I say to my two colleagues and distinguished sponsors of this bill which will be known as the Pryor-Johnston-Dixon bill in Arkansas and the Johnston-Pryor-Dixon bill in Louisiana——

Senator PROXMIRE. And the Dixon bill in Illinois.

Senator PRYOR. We want it to be the Proxmire bill in Wisconsin and the Gorton bill in Washington.

Senator DIXON. I'm pleased to have you here and to go over this very quickly with you to see if we all agree on what the bill does.

I think it's important first to notice that we define an agricultural bank as one with assets of $200 million or less with 25 percent of its loans in agricultural loans. This bill will permit some of the bookkeeping regulatory accounting practices and push-down or purchase-method accounting principles that we have already permitted for thrifts in other legislation previously passed. As I understand a hypothetical case—and we've gone over this before, Senators Johnston and Pryor—if a farmer owed one of these agricultural banks $1.5 million and his collateral was down to a true market value of $900,000, if the FDIC would agree, the loan could be marked down to that level, as I understand it, and the $600,000 could be amortized over a 30-year period at $20,000 a year.

Now as I understand the legislation, if—and you have said before, Senator Johnston, that farming is a cyclical experience. If the cycle improved again and the farmer was doing better and in 10 years he sold that farm, he then would owe the bank the balance of the $900,000 the loan had been marked down to, plus the $400,000 of the $600,000 that had not yet been amortized but he would not owe the other $900,000 balance that had been amoratized.

All of this could be arranged through the arrangement and the approval of the FDIC.

Is that substantially a correct statement?

$20,000 A YEAR WRITEOFF

Senator JOHNSTON. I think that is substantially correct, except it is written off $20,000 a year.

Senator DIXON. Over 30 years.

Senator JOHNSTON. That part which is written off each year is fully written off and the farmer no longer owes it.

Senator DIXON. That's correct. At the 10-year period $200,000 at $20,000 a year for 10 years would have been written off and amortized.

Senator JOHNSTON. That is right. The farmer would no longer owe that at the end of the 30 years. By the way, it need not be 30 years. If he wants to make a faster repayment schedule, he can.

Senator DIXON. It could be less.

Senator JOHNSTON. And if the farmer sells or goes into bankruptcy, then that part which otherwise would have been written off would be owed.

Senator GORTON. But if he doesn't sell, even though the value goes back up?

Senator JOHNSTON. If he does not sell, he does not have to pay it. All he has to do is pay that part which is not written off. The idea here is that the farmer should not be allowed to profit—he should not be allowed to have his debt fully forgiven by selling later on. He can have it fully forgiven if he keeps his land because that is what we want to encourage here; we want the farmer to keep and to own his land.

The problem now is that so many of these banks have nonperforming loans and they have taken the farm property back and they are letting the farmer stay on it and lease it. So what you have really is a new class of tenant farmers created out there today and that is a terrible kind of peonage for the farmer because he has no hope of owning that land. He is just operating it on a year-to-year basis as a tenant farmer for the bank.

This bill allows the farmer to keep and own his land if he stays on it for the full amount of time that the amount written off is fully written off and fully forgiven.

Senator DIXON. May I say to my two distinguished colleagues, in our private conversations, I think we've said what we like about this bill is, one, the farmer likes it. He gets to keep his land and farm his land. Two, the banker likes it. He doesn't want to go into the farming business and he gets to write off this loan over an amortized period of time and he gets some bookkeeping practices that he likes. And, three, it doesn't cost the Government or the taxpayers of this country one single nickel.

Senator JOHNSTON. That is right, and the FDIC does not have to do it. If the FDIC decides that this is not a good banking practice, that it threatens to make banks too shaky, they do not have to use it. But believe me, I think the FDIC is going to need this, as they needed very similar powers with the thrifts. If we had not done substantially this same thing for thrifts, then thrifts would have gone bankrupt by the scores all across this country. We allowed them to stay in business and I think that was a good move.

Senator GORTON. Senator Proxmire.

Senator PROXMIRE. Thank you, Mr. Chairman.

On that very last point, Senator Johnston, I'm not sure that we were smart to apply this to the thrifts. I don't want to be a spoilsport. Everybody so far is all for this and I may be too, but I think there are some very, very serious questions.

The bill seems to provide agricultural banks the same kind of liberal accounting provisions allowed to thrift institutions, as you've indicated, in the early 1980's.

Senator JOHNSTON. Let me say it does not——

Senator PROXMIRE. Let me finish. The GAO has reported that these devices haven't worked very well. The institutions aided are getting worse, not better. The ultimate cost to the FSLIC will be greater.

What assurance is there that the same thing will not happen if Congress provides similar accounting relief to agricultural banks?

FDIC HAS FINAL AUTHORITY

Senator JOHNSTON. Well, first of all, the banks are not given any relief. The FDIC is permitted to give the banks the relief. So the FDIC is the one who will decide in each case whether the bank has a better chance of surviving with this or without it. It is really a case by case exercise by the FDIC.

I am not an expert on what the thrifts did and I do not know whether the thrifts were given the right to do this, to use those accounting methods.

Senator PROXMIRE. Why wouldn't the FDIC request this authority if they need it? There's no evidence that the FDIC is interested in getting this authority, is there, or isn't there?

Senator JOHNSTON. Well, I do not know why they are not It seems to me that they should. But if it is unwise, they do not have to use it.

Senator PROXMIRE. If we put this on the books, then at least there's substantial psychological pressure that the Congress of the United States and the President has signed the bill, that the executive and legislative branches think their regulators should proceed with this.

Senator JOHNSTON. Well, I think they should, if the bank has a better chance of surviving. I mean, if to make that capital call is going to sink the bank and sink the farms with them, and cause the FDIC to have to buy up these loans at 100 percent, that is in nobody's interest.

Senator PROXMIRE. Well, let me put it in a little different way. I am concerned that the precedent of changing the accounting rules every time we have financial difficulties instead of meeting the problem directly, we tend to sweep it under the rug. We had the same kind of experience with New York City and, of course, it was followed with bankruptcy.

Senator D'AMATO. There he goes again.

Senator PROXMIRE. That was before the distinguished junior Senator from New York came on the scene and in that case we wouldn't have needed to do that.

Senator PRYOR. I think he saved New York City, if I'm not mistaken.

Senator PROXMIRE. Why can't we provide direct financial aid directly, if aid is needed, without changing the accounting rules in the middle of the game?

Senator JOHNSTON. Well, we have a $220 billion deficit, for one thing. For another thing, if you are going to bail out banks—and that would be a bailout with all the implications of a bailout, you could not pass it in the Congress—there is not enough money to do it. This is a way to do it, in effect, for free, because it does not cost anybody anything.

Senator PROXMIRE. Well, it's certainly going to cost plenty and cost a lot more if the basic farm situation doesn't improve. If you make the assumption that 2, 3, or 4 years from now the farm income is going to improve, then almost anything might work. But

I don't see any indication that that's the case. It may be true, but all the indications are that the farmers are going to be in trouble for a long, long time. We've got this overvalued dollar. We've got all kinds of other things that are likely to continue to cause distress to farmers.

Senator JOHNSTON. I do not think it would cost any more than it is going to cost right now. If you have a bank that is on the verge of bankruptcy now and you do not do anything and it goes bankrupt, that is going to cost the FDIC just as much as if you let them go along with this relief and they go bankrupt 5 years from now. There is going to be no added cost from that.

Senator PROXMIRE. Why do you have the cutoff at $200 million and why do you apply it only to agricultural banks? Why not apply it to all banks so that everybody is treated equally? You're in effect coming in and saying, now, look—you're right—the farmers are in difficulty, but so is, maybe in a year or two, real estate will be in bad shape.

Senator JOHNSTON. Because agriculture is a special case. It is really a special case because agricultural commodities have never been as low on the cycle as they are now. They do not have the diversity. If you are in an agricultural parish in the State of Louisiana, that is the only business there is. You just cannot diversify into other things. That is the reason we identified the small agricultural bank and we identified them to agriculture because of the special case of agriculture.

Senator PROXMIRE. But if the accounting rules are fair, I can't understand why you shouldn't apply them to everybody, every bank, and every business.

Senator JOHNSTON. It is not a question of fairness, Senator Proxmire. It is a question of how can you save the family farm, how can you save the agricultural bank, how can you cost the Federal Government the least money? There is nothing inherently fair or sacred about an accounting rule. I mean, it is a set of rules that are arbitrarily set and there is nothing especially moral about it. What we ought to do is adopt a set of rules that serves people best, and this set of rules will best serve farmers by allowing them to survive and best serve banks by allowing them to survive.

Senator PROXMIRE. Let me ask you, supposing the FDIC should testify against the bill and say that they think it would be a bad practice and they're opposed to it. Do you think we should go ahead in any event and pass it and then do what we can to persuade the FDIC to implement it?

Senator JOHNSTON. Yes, I think so. The FDIC is and should be a conservative group of regulators. This is an additional arrow in their quiver, an additional tool, which they need not use. Would there be some pressure to use it? Yes, in appropriate cases. Perhaps even in inappropriate cases they would be asked to use it and it would be up to them to properly refuse. Let me stress that, and I think in inappropriate cases they should refuse. But what we ought to do is give them the tools to do the job and this is a good tool for them to use.

Senator PROXMIRE. Have either of you gentlemen had any opportunity to discuss this with anybody at the FDIC, with Mr. Isaac or anybody else?

Senator JOHNSTON. No.

POSSIBLE LIQUIDATIONS

Senator PRYOR. I have not, Senator Proxmire. If I could make one or two points, first, for the life of me, I don't know why the FDIC would not support the Dixon bill. The FDIC—if things continue to go as they are going today—is on the eve of becoming the world's largest liquidator. That is what we are facing. We are getting ready to see millions and millions of acres of farm land in the United States in receivership, in bankruptcy, and FDIC will be the liquidator for those millions of acres of land. We are talking about, not hundreds of farm families, we are talking about hundreds of thousands of farm families.

Second, the reason I think that this bill only pinpoints a relationship with the rural bank—those banks under $200 million—and the local farmer that they know so well is very simple. Most banks today do not want farm loans. With the Farm Credit System, some say, on the verge of collapse—I'm not that pessimistic—but with the Farm Credit System now finding it very difficult to service the loans of most of the farmers in America, the last ray of hope for that family farmer is the local bank. If we deny that option, truly, I believe that we are cutting off the only remaining source of credit to thousands and thousands of farm families. This is why we have tried to direct this legislation to that particular relationship.

Finally, as to the S&L's, I've not read the GAO report mentioned by the Senator from Wisconsin, whom I admire very much and respect immensely. I have not read that report, but I have a sense that someplace in the GAO report the change of accounting system for S&L's, perhaps the GAO was implying that many savings and loans had left behind what they had traditionally and historically attempted to do—finance homes for the American people. Many have gone into what some call glamorous real estate ventures, far from their home base.

Those options are not available to those small rural bankers. Most of their loans are agricultural loans. They are not out there looking for those glamorous ventures that might be somewhat risky. They are still there for a purpose, and that purpose is to service the needs of that farmer who is going to buy fertilizer, seed, cars, tractors, and everything that keeps the farm economy running.

We once again say this may not be a perfect resp nse, but we certainly feel this is a response that we must consic r. I hope it will be reported favorably by this committee.

So I'm proud today to testify on behalf of the Sass r-Dixon bill. Senator Sasser just came in. I think he's also a cosp nsor. And I hope the committee will give it favorable conside ation

Senator PROXMIRE. Thank you, Mr. Chairman.

Senator PRYOR. Those are very good questions, I mi it add, from the Senator from Wisconsin.

Senator GORTON. Senator Mattingly.

Senator MATTINGLY. Thank you, Mr. Chairman.

I would like to ask the Senator from Arkansas t iat took the check out of his pocket a while ago, was that in 1974?

Senator PRYOR. 1974. That was based I guess on the 1973 crop.

Senator MATTINGLY. That was the last year he made—is he still farming?

Senator PRYOR. This gentleman is probably farming his last year.

Senator MATTINGLY. He's still farming?

Senator PRYOR. He is still farming.

Senator MATTINGLY. He has farmed then for 11 years without making a profit?

Senator PRYOR. That's correct. He's lived basically on savings and borrowed capital and this probably is his last year. He may not have planted a crop actually this year. I'm not certain.

Senator MATTINGLY. You don't know whether he got any Government loans, do you?

Senator PRYOR. I imagine he has some Government loans. If he could acquire Government loans, I imagine he has them.

Senator MATTINGLY. Let me ask you another question—both of you. Has anybody got the cost on this piece of legislation yet?

Senator PRYOR. Zero.

Senator MATTINGLY. I know there's been some comment made that it's absolutely no cost. Is that our wing-it opinion or is this something that has come from CBO or have there been any cost studies done?

Senator DIXON. There is no involvement of the Government, may I say to the Senator from Georgia, in this bill at all. It's simply a writedown of the loan to the market value of the collateral with opportunity for the agricultural bank defined in the bill as a $200 million bank with 25 percent agricultural loans to amortize over a maximum of 30 years. So there is no cost to the Government. It's budget neutral.

Senator MATTINGLY. But there has been no study done on it yet; is that right?

Senator JOHNSTON. There's nothing to study.

Senator DIXON. It simply is a budget neutral bill, I assure my colleague.

Senator PRYOR. It's not subject to a line-item veto, I might add. I don't think it is.

REDUCTION OF THE DEFICIT

Senator MATTINGLY. Which brings up another subject of what Senator Proxmire brought up. I have not decided yet whether I'm going to support the bill or not, but he was talking in reference to the deficit, and probably one of the best things I think that we can do for agriculture, if there is any light down at the end of the tunnel for the farm economy, obviously it's going to be when we in this room, with or without the line-item veto, is to try to address the Federal budget deficit, which I think causes a real impact on the interest rates, which causes a real impact on our exports.

Now I'm not saying that you have got the cart before the horse on the bill at all. I'm just saying that maybe when we've got this deep concern, as I do since my State is 60 percent agricultural based, I think the concern for the farmers maybe ought to be directed first toward the budget deficit. You hear a lot of rhetoric in this

place and I'm not saying that this bill is a bad bill. I'm just saying that maybe we ought to do the business that is facing our Congress first and that's trying to control this budget and reduce this deficit.

Senator JOHNSTON. I do not know whether we ought to do it first. We ought to do it. But there is not much of a sign that I see, and I am on the conference, that it will be done. If they had adopted our very strong bipartisan program that Senator Gorton was the lead author of, it would have been balanced by somewhere around 1990 or later. I can tell you the farmer cannot wait until 1990. And the Gorton plan is not going to fly. I think the best we can hope for I think is deficits of $180, or more probably $200 billion. There is not a plan, not one proposed by President Reagan, by Bob Dole, by me, by anybody, that offers a balanced budget within the timeframe that is necessary to let the farmer survive. So we cannot afford to hold up on any agricultural legislation while we balance that budget. I think we need to balance it and I will do my part, but let us not let the farmer go.

Senator MATTINGLY. We'll give you an opportunity once again today to try to take part in it with the vote. What I'm saying is we talk about trying to balance the budget. I'm not talking about balancing the budget. We're talking about trying to just cut $56 billion this year, as you know. It seems like we've got a lot of agricultural programs that we cause out there—and I'm not saying this is a bad program, Senator Dixon, or proposal, but I think we constantly try to use Band-Aids to try to patch a system. We're trying to look at the disease out here and not trying to go out and really attack the germ.

Senator JOHNSTON. Well, this really attacks the germ.

Senator MATTINGLY. I think this is one more patch. I've got a lot of legislation, too, in agriculture that I think some are patches, but I'm just saying that maybe we ought to be directing our efforts more toward the budget.

Senator JOHNSTON. Senator Mattingly, I quite agree that we have been treating the symptoms in farm credit by wanting to give the farmer more credit. What this bill would do is to allow the farmer to reduce his debt so that his cash-flow can cover the debt. That is the basic problem that the farmer has. His debt has been too big and this allows a reduction of that debt; it allows him to keep the farm; and it allows him to pay off the debt. In other words, it allows him to have his debt reduced to where his cash-flow can take care of it. That is why I say it deals with the basic problem of the farmer today.

FARMERS DON'T WANT ANY MORE LOANS

Senator MATTINGLY. I agree with Senator Pryor when he said that the farmer doesn't want any more loans. I believe that. And I think he's looking at the other things we should be doing up here.

Senator PRYOR. Well, I won't go into a great deal of theory on this, but I truly believe the best way to cure our deficit today is to furnish an opportunity for the farmer once again to be a taxpayer.

Senator MATTINGLY. Right.

Senator PRYOR. And if that agricultural economy is strong and if it is competitive and if those farmers are making money and

paying taxes, the economy of this country generally has followed suit. And we strongly feel that this is not—once again, I don't know if the Senator from Georgia was here when we mentioned it—this is not an agriculture bailout, it is not a bank bailout. It is an attempt to recognize reality by a change in the accounting procedure. We hope the Senator will support it.

Senator MATTINGLY. I would like to stay but I've got to go talk to a constituent real quick. Thank you.

Senator DIXON. The distinguished Senator from Tennessee, Senator Sasser, on the Sasser bill.

Senator SASSER. Thank you very much, Mr. Chairman, and I want to commend you and the chairman for calling these hearings here today. This is really the Dixon bill and I am pleased to be a cosponsor and I want to commend Senators Johnston and Pryor for their clear and convincing testimony here this morning. I say to my colleagues that I find your logic irresistible.

These are not ordinary times that we find ourselves in, with the farming economy in this country. These are extraordinary times and I think they call for some different remedies. We have down on the farm, gentlemen, a depression. The farmers are in as bad a shape as they were in the early 1930's and we simply can't sit around here and talk about the rules of orthodoxy and say we can't afford to do anything because it doesn't have the stamp of approval of the Federal Deposit Insurance Corporation.

What kind of shape would we have been in if Franklin Roosevelt and his people had taken that attitude back in 1933? Of course, there was no FDIC then. It was put together by that group of innovators who realized that we had a crisis, and that if we were going to save the economy of this country, something had to be done about it.

Well, I think what we see here is an effort to innovate to save the agriculture-related banks in this country and to save the family farm in this country. And I think it's worth taking a minimal risk to do that. I think this bill that has been authored by Senator Dixon and coauthored by you two distinguished Senators is just that—a minimal risk—and the rewards I think will be great.

Why do I say we're in a depression in the farm economy? Well, just a few months ago we were contesting here on the Senate floor some emergency farm credit legislation which admittedly was a Band-Aid, as Senator Johnston said, but it was a Band-Aid that we thought was badly needed. But incredibly enough, conditions in the farm economy continue to get worse.

According to the Department of Agriculture, the gross cash income is projected to decline this year to as low as $20 billion. Now that's $10 billion below last year's, or a one-third decline from last year when the farm economy was indeed in a depression. It wasn't a recession. It was a depression.

Our farm exports are going to be 12 percent lower this year than they were last year. They were exceedingly depressed last year.

VALUE OF FARM LAND DECLINES

The value of farm land in my State of Tennessee declined 6 percent last year. Now that's bad enough, but it does not compare to

the 23 or 25 percent decline in 1 year recorded in some of the Midwestern farm States.

And for our colleagues to sit around here and say we've got to wait, wait and do something about balancing this budget and not try to help these farmers and not try to do something about the collapse of farming banks and the farm economy around this country reminds me very much of Nero fiddling while Rome burned.

So I am proud to be a cosponsor of this bill along with Senator Dixon and I want to commend Senators Pryor and Johnston for being innovators and trying to find a way to deal with this problem down on the farm rather than wringing their hands and pointing their finger the other way.

And there's one other gentleman that I want to mention here who came up from Louisiana to talk to me about this and his name was David Lensing. I think this whole idea germinated with him and I want to commend him for it.

Senator PRYOR. And if the two of us would leave at this point and allow Mr. Lensing to talk about this bill, you would probably have a better understanding of it because he is here I understand to testify, Mr. Chairman. I think Mr. Lensing is here.

Senator DIXON. Have you concluded?

Senator SASSER. I have concluded. Thank you.

Senator DIXON. Do you have any questions, Senator Cranston?

Senator CRANSTON. No, I don't.

Senator DIXON. We thank Senators Johnston and Pryor for their excellent testimony.

Senator PRYOR. It's a pleasure to come and testify on behalf of the Cranston bill this morning.

Senator DIXON. Our next witness is Mr. B.F. "Chip" Backlund, the president of the Bartonville Bank in Peoria, IL, and the president of the Independent Bankers Association of America, and an old and warm friend of mine, and may I say on behalf of the committee that we are delighted to have you here, Mr. Backlund, speaking not only on your own behalf but on behalf of the Independent Bankers Association of America.

STATEMENT OF B.F. "CHIP" BACKLUND, PRESIDENT, BARTONVILLE BANK, PEORIA, IL; PRESIDENT, INDEPENDENT BANKERS ASSOCIATION OF AMERICA

Mr. BACKLUND. Thank you, Mr. Chairman. And it is a special privilege for me to testify before you for the first time and also on behalf of your bill.

I'm going to shorten my statement. It has been submitted. The Senators have certainly been very articulate in supporting this legislation and many of the things that have been brought up I'm going to try not to repeat.

I am Chip Backlund, president of the Independent Bankers Association, which is a trade association of some 7,500 banks throughout the Nation. We estimate that about two-thirds of our membership are deeply involved in agribusiness, farm loans in the agricultural sector of the economy. I was born and raised in Nebraska and spent several years there in an agribusiness, was a bank examiner in Nebraska, and therefore I can relate to this problem.

FARM SITUATION DEVELOPING INTO A TRAGEDY

I see it developing into a possible tragedy. We are in a crisis undoubtedly. We may go to a super crisis. That's why proposals like this have to be considered very seriously, because of the need to have the tools to deal with this.

The financial pressures in agriculture will not measurably improve until farm prices and income strengthen significantly relative to farm production costs. The farm bill now before Congress is crucial in this regard. Furthermore, there is little light at the end of the tunnel, and I agree with Senator Mattingly along those lines, for the farm economy until Congress addresses the Federal budget deficits which are the direct cause of the high real interest rates, the burdensome cost of servicing debt, as well as the overvalued—not the strong, but the overvalued dollar which makes our farm commodities less competitive in export markets.

We have to bear in mind these basic facts as we consider agricultural credit and the restructuring of farm debt.

With respect to S. 1151, Senator Dixon and the other Senators who are cosponsoring this bill should be commended for offering the proposal, a pragmatic, imaginative proposal designed to deal constructively with the farm debt problem.

Without question, it would be most helpful to provide this enabling authority so that the lenders and their borrowers, the farmers, could make use of the procedure in the proper circumstances. I have no way of predicting the number of instances in which such an amortized loss procedure would be used. If the FDIC has the final decision, certainly you're not sure how often this would be used. However, this is another approach which I think should be considered very seriously. This could provide a basis for farm operators, particularly those young farmers—one of the real tragedies is that the young farmers, those between 30 and 50, the aggressive, most productive farmers, are the ones who borrowed heavily in the 1970's and are now in this overleveraged position. The conventional wisdom which was espoused by the college professors, the bankers, the lenders, the Government agencies, was that they should borrow heavily and buy land and buy this equipment. The equipment dealers were out there suggesting that they take advantage of the investment credit which reduced their taxes. And those are the farmers who are going to be lost in this situation.

The farmers my age who had it made, who had the traumatic experience of seeing the Great Depression as youngsters, did not get quite in that position and, of course, they were older and they did not get so heavily in debt.

But that's one of the real tragedies of this situation. Furthermore, we believe that Senate bill 1151 should be considered by the committee as a companion measure to S. 795, the net worth certificate bill, on which your Subcommittee on Financial Institutions held hearings 2 months ago. A copy of our testimony is attached to the statement. As you know, this bill would extend for 3 years the Net Worth Certificate Program and would broaden that program to include qualifying agricultural banks with farm loans constituting at least 20 percent of the bank's total loan portfolio. Eligibility for capital certificates would occur if a bank's capital dropped to 6 per-

cent of assets—or a higher level if more capital was required by the bank's regulator.

NET WORTH CERTIFICATES

Simple equity requires that the net worth certificates and these special accounting procedures presented in this bill be extended to troubled agricultural banks, not only because of the unusual support given the thrift industry, but given the fact that the FDIC came to the support of Continental Illinois. I'm not criticizing that support. Furthermore, the regulators have not demanded that the major money center banks write down their troubled international loans to more realistic values. Many people have said that it was time to do something about the double standard in banking. They reasoned that, while smaller rural banks were being closed in unprecedented numbers, the Government had created a new class of banks—those too big to fail. This inequity has still not been addressed.

Some of those who oppose extending the net worth certificates to farm banks have tried to draw a distinction between the troubled assets of agricultural banks and the mismatch by the thrifts of their housing assets and liabilities—that is deposits which had increased in cost due to higher interest rates brought about by the change in 1979 of Federal Reserve policy plus the phaseout of regulation Q. However, the problems being experienced with farm loans are also traceable in large part—and almost entirely in my opinion—to Government policies, including first and foremost the large Federal budget deficits, plus embargoes imposed on the export of farm commodities, and other related governmental actions which have led to the high real interest rates, slumping farm export markets, and plummeting land values.

Corrective action is now absolutely imperative to the recovery of the farm economy and to the survival of the rural communities and the rural culture that is so dependent upon agriculture.

The net worth certificates and these special accounting procedures of this bill will not bail out the banks or their stockholders. They will keep afloat the well-managed farm banks that have experienced heavy farm loan losses but are able to project earnings that can bring them back to a strong capital position over a reasonable period of time. We just can't afford to lose several hundred agricultural banks.

That concludes my prepared statement, Senator.

Senator GORTON. Thank you very much. I will defer my questions, since you've heard most of this testimony, Senator Dixon, and start with you.

Senator DIXON. Mr. Backlund, you've been in banking a long time. In recent years, have you ever seen the farm economy in such bad shape for such a long period of time?

Mr. BACKLUND. Never.

Senator DIXON. Would you agree that unusual circumstances require innovative and unusual responses? We think this bill is that kind of a bill. Is it your opinion—and you're the president of the association that represents most banks of this size in the country as I understand it—is it your opinion that if the FDIC cooperates

with the banks that this can work and that many banks around the country in agricultural communities will take advantage of this opportunity to write down the loans and amortize the loans over a period of time?

Mr. BACKLUND. I'm sure many will, Senator, absolutely. You're giving a lot of power to the FDIC here but they will be under certain pressure to take advantage of it, without question.

Senator DIXON. Incidentally, in that connection, there were some comments made by my distinguished friend from Wisconsin, and I just wanted to say in connection with that—I'm trying to find the bill here—that the criteria used is that the FDIC may not authorize any such action unless: One, such action will enable the agricultural bank to survive, remain viable and show profit; and two, there is no evidence of fraud or gross mismanagement by the management of the agricultural bank.

So I think there are some reasonable standards.

Mr. BACKLUND. Absolutely. If it's used under those circumstances, there should be no complaint about it as far as I'm concerned.

Senator GORTON. Senator Cranston.

Senator CRANSTON. I have no questions.

Senator GORTON. Senator Sasser.

Senator SASSER. No questions, Mr. Chairman.

[The complete prepared statement follows:]

S T A T E M E N T O F

B.F. (Chip) Backlund

President

Independent Bankers Association of America

Hearings on S. 1151

Farm Credit Relief Act of 1985

Before the

Committee on Banking, Housing and Urban Affairs

United States Senate

Honorable Jake Garn, Chairman

538 Dirksen Senate Office Bldg.

Washington, D.C.

July 24, 1985

Mr. Chairman and Members of the Committee, I am B.F. (Chip) Backlund, President of the Independent Bankers Association of America. I am also President of the Bartonville Bank in Peoria, Illinois.

IBAA is a national trade association of community banks, representing about 7,500 smaller and medium-sized banks throughout the United States. About two-thirds of our membership is composed of banks located in rural areas which have a substantial portion of their assets in farm loans and other loans and investments related to the agricultural sector of the economy.

On a personal note, I was born on a farm in Nebraska, spent several years in a family agri business, served as a bank examiner for the State of Nebraska and the last 28 years as an agricultural community banker. The farm dilemma in the Great Plains, and to a lesser extent in the Midwest, is a potential tragedy that I relate to, and quite frankly, touches me deeply.

You are undoubtedly very familiar with this severe financial situation, so I will not burden you with further recitation of statistics on the farm debt problem. The problems being experienced are not due to any shortage of credit as such, but rather to the depressed state of the underlying farm economy and the deteriorating values of farmland and other farm assets.

The financial pressures in agriculture will not begin to measurably improve until farm prices and income strengthen significantly relative to farm production costs. The general farm bill now pending in Congress is crucial in this regard. Furthermore, there is little light ahead for the farm economy until Congress addresses the Federal budget deficits which are a direct cause of the high real interest rates, the burdensome cost of servicing debt, as well as the overvalued U.S. dollar which makes our farm commodities less competitive in export markets. I think we need to bear in mind these basic facts, as we consider measures regarding agricultural credit and the restructuring of farm debt.

With respect to S. 1151, I wish to commend Senator Dixon, and other Senators who are co-sponsoring this bill with him, for offering a proposal designed to deal constructively with certain aspects of the farm debt problem.

This bill applies essentially to banks with assets of less than $200 million, and which have at least 25 percent of their assets in agricultural loans. Those banks would be eligible for special rules to account for loan losses, if the bank renegotiated and reamortized a troubled farm loan. Specifically, if a portion of the loan principal was written off in renegotiating the loan, then the bank would be

permitted to reamortize that loss and write it down against the bank's capital over the full life of the rescheduled loan. A loan could be rescheduled with a maturity up to 30 years.

It would be useful to provide this enabling authority, so that lenders and their borrowers could make use of the procedure in the proper circumstances. I have no way of predicting the number of instances in which such an amortized loss procedure would prove to be useable, and its use should be kept completely discretionary in individual cases. However, this is an approach which could provide a basis for farm operators to work their way out of an overleveraged debt position and continue their farming operations. We would support the bill in the belief that it would prove helpful in some instances.

Senate Bill 1151, could be considered by the Committee as a companion measure to S. 795, the Net Worth Certificate Bill, on which your Subcommittee on Financial Institutions held hearings two months ago. A copy of IBAA's April 26 testimony on Senate Bill 795 is attached to my statement. As you know, S. 795 would extend for three years the Net Worth Certificate Program and would broaden that program to include qualifying agricultural banks with farm loans constituting at least 20 percent of a bank's total loan portfolio.

4.

Eligibility for capital certificates would occur if a bank's capital dropped to six percent of assets--or at a higher level if more capital was mandated by the bank's regulator.

Simple equity would seem to require that the net worth certificates be extended to troubled agricultural banks, not only because of the unusual support given the thrift industry, but given the fact that the FDIC came to the rescue of Continental Illinois. Furthermore, the regulators have not demanded that the major banks write down their troubled international loans to more realistic values. Many people have said that it was time to do something about the double standard in banking. They reasoned that, while smaller rural banks were being closed right and left, the government had created a new class of banks--those too big to be permitted to fail. Nonetheless, this inequity has not been addressed.

Some of those who oppose extending the net worth certificates to agricultural banks have tried to draw a distinction between the troubled assets of agricultural banks and the mismatch by the thrifts of their housing assets and liabilities--the latter of which had increased in cost due to higher interest rates permitted by a change in Federal Reserve policy. However, the problems being experienced with farm loans are also traceable in large part

to government policies, including the large Federal budget deficits, embargoes imposed on the export of farm commodities, and related government actions which have led to the high real interest rates, slumping farm export markets, and plummeting land values.

Corrective action is now vital to the recovery of the farm economy and to the survival of rural communities and culture that is so dependent upon agriculture.

The net worth certificates will not bail out the banks or their stockholders. They would merely help to buoy up the well-managed farm banks that have experienced heavy agricultural losses but are able to project earnings that can pull them out of their present situation over a reasonable period of time.

In certain respects, the net worth certificates would serve a function similar to the regulatory accounting methods which banks would be permitted to use under S. 1151. Both the net worth certificate and the regulatory accounting methods are designed temporarily to take some pressure off the capital structure of agricultural banks which have substantial holdings of troubled agricultural loans. We believe that the broader approach provided by the net worth

certificates is particularly necessary, in order to provide an adequate underwriting of the capital of farm banks, and therefore would not consider the accounting methods permitted by S. 1151 as a substitute for the net worth certificate program.

This concludes my prepared statement, and I would be pleased to respond to any questions which you may have.

S T A T E M E N T O F

Bud Gerhart

Chairman, Agriculture-Rural Committee

Independent Bankers Association of America

Hearings on S. 795

to

Committee on Banking, Housing and Urban Affairs

Subcommittee on Financial Institutions and Consumer Affairs

Honorable Slade Gorton, Chairman

538 Dirksen Senate Office Bldg.

Washington, D.C.

April 26, 1985

9:30 a.m.

Mr. Chairman and Members of the Committee, my name is Bud Gerhart and I am the Chairman of the Agriculture-Rural Committee of the Independent Bankers Association of America. I am also President of the First National Bank in Newman Grove, Nebraska.

IBAA is the national trade association of community banks, representing some 7,800 small and medium-sized banks throughout the United States. About one-third of our membership might be described as agricultural banks, in that loans to agricultural producers comprise a substantial portion of those banks' loan portfolios.

The credit problems facing agriculture today are quite severe. A publication released last month by USDA reported that about one-third of the 679,000 family-sized commercial farmers, or about 229,000 of those farm producers, are facing some degree of financial difficulty. Of those 229,000, the USDA states that:

- About 43,000 farmers, who owe a total of $19.7 billion of farm debt, are "technically insolvent;" their debt exceeds their total assets;

- About 50,000 farmers, owing $23.5 billion of debt, have "extreme financial problems." Their debt equals at least 70 percent of their total assets; and

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- Another 136,000 farmers, who owe $54.9 billion of debt, have "serious financial problems;" their debt exceeds 40 percent of their assets.

Together, those 229,000 family-sized commercial farmers facing financial difficulty, according to the USDA, owe $98.2 billion of the $212 billion of total farm debt outstanding on January 1, 1985--or 46.3 percent of total farm debt.

The guaranteed loan programs of the USDA have not been adequate in dealing with the troubled farm debt situation. As of April 15, $373.8 million of regular Farmers Home Administration farm loan guarantees have been approved involving 2,508 borrowers. Only $19.5 million of additional FmHA guarantees to 129 borrowers was made under the Administration's Debt Adjustment Program.

In recent weeks, attention has focused on the credit needed by farmers to finance their 1985 production. This is a proper focus, because the producer's ability to finance his 1985 operations determines whether or not he remains in business. However, it is important to recognize that in order to extend new financing for 1985, the producer's lender must somehow find his total debtload--including existing debt, to be manageable. And this backlog of existing debt presents the basic problem, in most instances.

3.

The FmHA has increased the funding available for direct operating loans by some $900 million, and total available funding for the current year is now $2.82 billion. However, to the extent that such loans have gone to borrowers from commercial lenders, the FmHA loans have been made largely to cover 1985 production expenses only and have not affected the borrowers' backlog of existing debt.

Today's severely-tight financial situation in agriculture has been building almost steadily since 1981. Until the latter half of 1984, the cushion which was built into the agricultural credit system in the form of collateralization which often exceeded the face value of farm loans, relatively strong capital levels of lending institutions, and rather high liquid asset levels among farmers, enabled the system largely to absorb or stretch out the mounting incidences of losses. However, by mid-1985 this capacity of the commercial and cooperative farm lenders to absorb and/or stretch out potential losses was being rapidly exhausted.

The sharp increase in agricultural bank failures during the past nine months documents how more and more agricultural banks are being pushed below their bottom line with regard to required capital levels. Six of the 43 banks which failed in 1983 were agricultural banks. In 1984, 26 of the 79 failed banks were agricultural banks, and 22 of the 26 agricultural

bank failures occurred during the last half of 1984. Thus far in 1985, as of April 24, sixteen of the 27 banks which have failed were agricultural banks.

As indicated, the capacity of agricultural lenders themselves to absorb potential losses from troubled farm debt is rapidly expiring, and simple equity would seem to require that some assistance be provided. Last year, when the FDIC came to the rescue of Continental Illinois, many people said that it was time to do something about the double standard in banking. They reasoned that, while rural banks were being closed left and right, the government had created a new class of banks--those too big to be permitted to fail. However, basically nothing has been done to even the score.

As a first step, we recommend that Congress broaden the Net Worth Certificate Program under the Garn-St Germain Act of 1982, expressly to include agricultural banks, and that the broadened program--for both thrifts committed to housing and banks committed to agricultural lending--be extended for an additional three years.

The bill S. 795, pending before your Committee, would broaden the Net Worth Certificate Program to include qualifying agricultural banks with farm loans constituting at least 20 percent of the bank's total loan portfolio. Eligibility for

5.

capital certificate assistance would trigger if a bank's capital deteriorated to six percent of assets--or at a higher level if a higher level of capital was required by the bank regulators.

Giving agricultural banks access to the Net Worth program would be a step in the right direction. It would recognize that, just as Continental was deemed "essential" to the banking system, many rural banks are essential to the economic health of their communities.

Similarly, extending the program to agricultural banks would help them maintain their capital the same way that many thrifts have been helped. One of the strongest justifications for the original Net Worth program was that the thrifts were being harmed simply because they did what they were expected to do, namely, provide fixed-rate home mortgages. When economic changes beyond their control began threatening their existence, Congress stepped in.

This is exactly the situation many agricultural banks find themselves in. They exist to serve the farming community. Economic forces beyond their control are forcing them to rapidly draw down the capital it took them years to accumulate. It is only fair that the government do for agricultural banks what it has already done for the thrifts.

6.

The extension of the Net Worth program to agricultural banks should not add to the government deficit. Indeed, when the Congressional Budget Office prepared the cost estimate for this Committee's Net Worth bill in 1982 it said that: "The availability of the guarantee authority is expected to reduce the need for the various forms of cash assistance provided by the government's thrift insurance agencies." CBO's estimate for the Senate's capital assistance program also projected a cost saving for the government.

The Net Worth program contains very demanding qualifications for recipients. To qualify for the FDIC's program, an institution must, in addition to meeting the statutory requirements, file a comprehensive business plan that satisfies the agency and agree to several conditions. Those conditions include among other things that employment contracts with senior management must be for less than one year; severance plans may not provide payments for longer than six months; the bank must file quarterly statements of income and condition; and, the bank must have annual audits by a public accountant.

For the reasons indicated, we are convinced that the inclusion of agricultural banks in a 3-year extension of the Net Worth program is the best step which this Committee can take at this time to assist in coping with the very severe credit problems facing agriculture. I would urge you to take early action approving this measure.

This concludes my prepared statement, and I would be pleased to respond to any questions.

Senator GORTON. The next panel is James Hays, banking commissioner for the State of Louisiana; Calvin Hamilton, a CPA from Indianola, MS; and David Lensing, chairman of the Bank of Dixie, Lake Providence, LA.

In your order of preference, gentlemen, but may I say, expressing the view already publicly expressed by my colleague from Tennessee, Senator Sasser, that we want to say to Mr. Lensing—I know I speak for Senator Sasser and myself and Senators Pryor and Johnston and others he conferred with—this innovative idea in large measure was his and we think it's a good one and we thank him for his contribution.

Mr. LENSING. Thank you very much, Senator. At the same time, I'd like to thank Senator Sasser and thank you and Senators Pryor and Johnston for taking up the banner so to speak with this bill. I'd like to accept all the credit for the bill but, unfortunately, I can't do that because these two gentlemen here had a large role to play in the original concepts and ideas that we came up with to draft the bill to begin with.

I might ask Mr. Hayes if he would like to go forward first.

STATEMENT OF JAMES HAYES, BANKING COMMISSIONER, STATE OF LOUISIANA

Mr. HAYES. Gentlemen, thank you. I also appreciate the opportunity to be here this morning to appear with you.

It is a little bit awesome to sit in a Senate committee, which I've never done before. This particular committee has a special significance in my mind because I have no doubt that years from now future educators will look back upon the 1980's as the transition period when financial institutions were forever reshaped. The responsibilities which you gentlemen hold on this committee are going to be nothing less than awesome. In my opinion, and having looked at some of the hole cards as a State regulator, by the year 1990 you're going to have been called upon several times to further restructure and reshape financial institutions.

EVOLVING EVENTS OF FINANCIAL INSTITUTIONS

The impetus for that will probably not emanate from the committee but from events over which none of us have any control. They will, however, culminate here. You're going to have enormous pressures of the possible mergings of the two funds, the FSLIC and the FDIC, and the single survivor of that merger. You're going to have enormous pressures coming about from the closings of financial institutions. Those numbers loom larger and larger every year.

There is a magnificent motion picture, a slice of Americana by Frank Capra, which stars Jimmy Stewart, called, "It's a Wonderful Life." If you recall, Jimmy Stewart plays the CEO of a financial institution and in the climactic scene his friends and neighbors gather together inserting funds in order to save that institution, and his guardian angel explains to him the worth of his own life. I've closed a bank. It's nothing like that. The friends and neighbors looks more like a lynch mob. The guardian angel is an FDIC examiner with a blank check, and no one plays the role of the goodhearted Jimmy Stewart.

With that in mind, I won't repeat the statistics which you've heard this morning, but I'd like to make them real for you.

My responsibility to you as a State regulator is to say that the role of the regulator is not limited in my case to merely looking at the insurance fund. Now earlier, Senator Proxmire made an observation. He asked the question, well: Have you talked to the FDIC; what's their reaction on this; what's their position going to be? I won't be here for their testimony, but I urge you to remember this. Their role is more limited than is yours. Their role is to target one element of banking—and that is the depositor segment, the insurance of those deposits. They don't have to worry about bank management. They don't have to worry about shareholders. They don't have to worry about the community in which the bank is situated.

Let's look at the farm crisis in its very real terms. The State of Louisiana has 64 parishes, counties in your equivalent. Now 31 of those parishes in Louisiana have 3 or fewer financial institutions in the entire parish. One rural parish is represented here this morning. If a bank closes in rural Louisiana, it's not like a McDonalds. You don't have one spring up across the street. And when that bank closes, you close the automobile dealer; you close the grocery store; you close the appliance salesman. All of those businesses are integrally woven to agriculture. And despite how sophisticated we think and despite what the Silicon Valley does for our image, the fact of the matter is that the history of the United States remains a Rockwell painting and not an IBM printout.

The history of this country is its agriculture base and the irony of this crisis is that years ago in the mid-1970's we stood firm and said we will take on those shieks in the Middle East because we hold the breadbasket of the world. Well, now we appears to be they, and us is now them. We can't turn our back upon the farm community of this country because it is in fact us and remains us.

GEOGRAPHICAL SETTING OF 95 PERCENT OF FARM BANKS

Now the numbers by the Comptroller of the Currency, the last numbers I have are 4,129 of what he considers to be agricultural banks. But the significance of that is if you look at a map, look at a map of this country, and look at the Mississippi River and look at that arterial. You take the 10 States on the east and the 11 States on the west of the Mississippi and you've got 95 percent of those 4,100-plus banks. That's a heartland problem, not a spotty problem that diffuses itself nationwide. And I assure you that the arterial of the Mississippi River remains the most viable source for the future and the economic recovery of this country as well.

Yes, we've got budget deficits to look at and they are extraordinary problems which you gentlemen luckily have to deal with and not me because I certainly do not envy the decisions you're going to have to make. But the fallout time for that is approaching and looming but you've still got an opportunity to act on your budget matters. I assure you that the mathematics in watching the sand leave the dial on the farm bank problem does not give you the luxury of very much time. You're going to lose 100 banks this year. You're probably going to lose 1½ that many next year; 1,700 of those banks that the Comptroller classifies have more than 50 per-

cent of their loans in the agricultural sector and the agricultural sector is not surviving.

Now I'll leave out the rest of the statistics and facts and I'll tell you instead, as we often do—Senator Long is more guilty of this than I am—I relate things in terms of people. There's a gentleman I wish all of you could meet. He lives near Youngsville, LA. His name is Isaac Brousard. I have a very difficult time explaining to Isaac Brousard how the Congress of the United States can allow Argentina an extended payout and not the farmers in LaFayette or Acadia Parish. He can't understand that. Now Louisiana supposedly ranks last in literacy, but you know what? It's a good question.

I have a friend who lives in Crowley, LA. He used to play football for the Cincinnati Bengels. He asked me a question, he said:

> Could we fly in about 600 of those Cubans who are down there raising up so much trouble in Nicaragua because maybe if we could have them think the Communists are going to take Crowley we can get some real help and attention.

Maybe that's part of an answer, too.

The burdens and responsibilities that you're going to face are indeed awesome, but I suggest to you that this beginning step is necessary and that what is being asked here is not a handout. What's being asked here is simply something that I think continues to be owed. The farming community of the United States has never turned its back on the United States.

Do you know that the odds are better than 50–50 that the kid who lies beneath that Tomb of the Unknown Soldier came from a farm because over half of them did? That obligation continues to be reciprocal.

Well, I hope I've met part of my obligation in bringing it to your attention and I would like to help in any further way I can and I urge you to insist with your colleagues to meet their obligations as well. It's an important bill. Thank you for hearing me.

Senator GORTON. Mr. Hamilton.

STATEMENT OF CALVIN HAMILTON, CPA, INDIANOLA, MS

Mr. HAMILTON. Mr. Chairman, committee members, I want to also personally thank you for allowing us to testify.

As a managing partner of a CPA firm representing a number of agricultural banks, as a farmer, and an organizer of a small Mississippi bank, I feel qualified to strongly recommend passage of Senate bill 1151.

I may be the only farmer cost accountant wandering around. I did testify some years ago for the Bumpers bill when there was some concern about storm clouds on the horizon. It turns out that the storm clouds were on the horizon and the agricultural economy is in serious trouble.

WORST CONDITION SINCE THE GREAT DEPRESSION

Secretary Block last week on an early morning TV show is quoted—I watched the show—and indicated the farm economy is in the worst condition since the Great Depression. Of course, others today have provided additional unquestioned documentation supporting this fact.

Banks in farming areas have experienced devaluation of collateral values and if required to write down loans in 1 year it would seriously impair the capital and existence of the financial institutions. In other words, as other members have testified, we would eliminate the financial institutions and as the point was made by one of the Senators, it's very doubtful that a new financial institution would replace it in the small agricultural rural areas.

If the banks foreclose, the farmer would be displaced, land values further deflated, and the banks would have large loan losses or carry other nonproductive real estate, which regulators would require writedowns, and this would impair the bank's capital.

The situation in combination in bank irregularities such as the Butcher Bank, have caused bank regulators to become overly cautious. Their concern is certainly justified, but coupled with the farm economy problems, the regulators' policies place extreme pressure on small agricultural banks. This is a point I don't think has been made and one that I want to personally testify to.

ATTITUDE OF BANK REGULATORS

While the banks are attempting to work out solutions to loan problems with honest, long-term citizen farmers of the community, the regulators are placing additional complications in the way of solving these problems. This was confirmed during my discussion Tuesday, yesterday, with the president of a small Arkansas bank and an officer of a large correspondent bank. During lunch most of the discussion centered around the farm problems and the attitude of the bank regulators. The bank president had not had an FDIC examination prior to the current exam for over 3 years. He quoted the examiners' first statement as they put their briefcases down as, "We know you have bad agricultural loans, your county unemployment is high and we intend to classify these loans."

The other bankers confirmed the attitude is different from prior exams and it appears the examiners are much stricter. Everyone agreed that banks in agricultural economy without apparent problems now have not had a current examination and as soon as they have a current examination they will witness the stricter approach.

In my opinion, the examiners have been doing a good job, but they are somewhat frustrated with the high number of bank failures and believe stricter enforcement is the answer. I'm not criticizing. They are trying to do a good job, but they are out there thrashing around trying to work out of the problem and this is the reason for the Senate bill, to give them a tool or another arrow in the quiver, as the Senator pointed out, as an alternative to giving the bank a whipping.

For banks with irregularities or unsound banking procedures, this might be warranted and, of course, the act specifically points out that it does not apply to irregularities or unsound banking. However, with agricultural banks, the loans were normally made to establish an agribusinessman who could not overcome the adverse economic conditions.

Senate bill 1151 will not solve all the problems of agribusiness, but will provide time for an orderly workout and time for consider-

ation of a more permanent solution, which is absolutely necessary and required.

The bill will relieve some of the pressure and provide guidance to regulators to be more understanding. It should be understood the bill does not provide relief, as we've mentioned before, for banks that are not properly run.

The bill basically allows an agricultural bank time to write off troubled loans and other real estate but also allows the farmer a chance to recover his property. The bill would not cost the Government anything and is much more favorable than some of the other bailouts.

The major objection has been the financial records of agricultural banks will be distorted. It should be understood that banks for years have been reporting financial position under regulatory accounting principles [RAP], instead of generally accepted accounting principles [GAAP], and the loans and other assets treated differently under the bill will be clearly reported on the bank's call statement.

For hundreds of years I guess and since the inception of the FDIC, as accountants and auditors, we've had to reconcile three sets of books, RAP, GAAP, and IRS. So this is nothing new that we're coming up with.

A bank model was established with substantial agricultural loan losses. Under present procedures the bank's capital percentage declined to a point of requiring the FDIC to request additional capital. In a troubled agricultural economy this is not a practical solution.

Under the provisions of Senate bill 1151, the bank model was able to maintain adequate capital and provide a workout of the troubled loans, the point being that when the bank's capital declines to a dangerous point it would be closed and that would be the end of the game. The next point, the declining of capital is still providing a higher capital base than the thrift industry at their highest point. In other words, under the bill and the bank model, the bank's capital declined to about 3 to 4 percent, which is still the standard in the thrift industry. So we're not talking about letting the bank decline to a point of closing the institution.

Failure to give banks relief under the act could change the initial CD from certificate of deposit to cease and desist. I urge the committee to report favorably on Senate bill 1151.

Senator GORTON. Thank you, Mr. Hamilton.

Mr. Lensing.

STATEMENT OF DAVID LENSING, CHAIRMAN, BANK OF DIXIE, LAKE PROVIDENCE, LA

Mr. LENSING. Mr. Chairman, I want to thank you and other members of the committee for giving me an opportunity this morning to comment on the provisions of Senate bill 1151. I've got a more detailed statement that I'd like to be part of the record.

Senator GORTON. We'll be happy to include it in full in the record.

[Complete prepared statement not available in time for publication.]

Mr. LENSING. I would just like to make some general observations about the bill if I might.

Approximately 7 or 8 months ago—let me begin by saying that I own a substantial amount of stock in a small rural bank in northeast Louisiana. Our community is totally dependent upon agriculture. It doesn't really matter whether we're making loans in our bank to farmers, or the grocery store owner, or the dress shop owner. Our whole economy is geared to the success or failure of the farmers.

Our problem has been that over the last several years the farmers have experienced mediocre or disastrous crop years and this has created significant loan problems for our bank.

VALUE OF FARM LAND DOWN 16 PERCENT

Some years ago we injected some additional capital into our bank, but our economy is in such a state of affairs now, picking up what Senator Sasser mentioned a minute ago, we feel that we are really in a true depression. I noticed just recently the USDA figures on the value—where they measure the value of farm land, whether it goes up or it goes down over a period of time. Those figures just released adjusted for inflation shows that on average farm land went down 16 percent over the last year. The last time it was anywhere close to that high was in 1933 when the average values were down 19 percent.

Of course, that's only an average value. In the Midwest, as Senator Sasser reported out, we've seen declines over the last year of anywhere from 25 to 30 percent.

I would also like to comment a little on a statement or a question that Senator Mattingly had where he pointed out that we need some legislation that would provide relief other than just a Band-Aid approach. I know from articles that I've read that Senator Dole, David Stockman, Secretary Block, and others involved in the administration want a market-oriented solution to the problem facing agriculture.

When we first got together and tried to put together this package, that was an overriding consideration in our minds, that we put together a package that, No. 1, would not cost the Government anything; No. 2, that could provide some real relief to the farmers and the banks that finance them. And that's what this bill really does.

CORNERSTONE OF THE BILL

The cornerstone of the bill is to provide a vehicle for the banks to allow the farmers to cash-flow. In the past, banks—not just banks—insurance companies, Federal land banks, production credit associations, other lenders in agriculture—made loans not based necessarily on just cash-flow but on asset appreciation. That day is over with. We have to address and deal with the problems facing agriculture on a cash-flow basis.

The beauty part of this bill is that it allows the banker to sit down with his loan customer at his bank, write down his loans to a level at which he can cash-flow. Today, soybeans were selling for $5 a bushel. About a year ago they were up as high as $7.58 or $8 a

bushel. That's almost a break-even point for a farmer or maybe even a little below production costs as it relates to soybeans. The same could be said for cotton, or rice, or corn, or wheat, or any other commodity that the farmers produce.

But the provisions of this bill afford the banker the opportunity—it doesn't make any difference what commodities are selling for. That's why this bill is a market-oriented solution to the problem. It doesn't require any big injection of money from the Government.

Very shortly—I don't know whether it will be before this committee or not, probably so—I feel that you will face—you will have to address serious problems that are facing the Farm Credit Administration. I noticed recently where it was necessary that a bank in Spokane and more recently a bank in Omaha to require huge bailouts from the other member banks in the Farm Credit System. They're experiencing the same thing that small rural commercial banks are facing. But here again, while this bill does not address that problem, the problems facing the Farm Credit System, it should be well received by them because they are making loans on exactly the same basis that a banker today is making, and that's on the basis of cash-flow. And if we can eliminate or reduce debt to a farmer, it's going to have to make his overall financial picture look better. He will be able to pay back the seed dealer. He will be able to pay back the chemical supplier. He will be able to pay back the equipment dealers. He will be able to pay back the Federal land banks.

Of the 215 billion dollars' worth of debt, half of it is short-term debt and a good percentage of that is held by the commercial banks and that's where the real problem is in agriculture today. Not that some farmers don't have problems with their long-term debts, but it's basically short-term debt. This bill addresses that problem.

One other item I'd like to address, I believe it was Senator Mattingly who asked a question about has anyone done any study as to the cost of this bill. This bill, if anything, will have a positive impact to the Government. To begin with, when you make the farmer cash-flow—Senator Pryor alluded to one of his constituents that the last time he had paid income tax was in 1974. Under this bill here, the banker is providing a vehicle to allow the farmer to cash-flow. When you say cash-flow, he's going to generate a profit. Therefore, he ought to be able to begin again to pay income taxes to the Government. So it should have a positive impact and it should not have any negative impact on the budget here at all.

I believe that before the year is out, Government intervention is inevitable. I hope that your committee will consider that if we fail to give the farmers relief from their debts, many thousands of farmers will go out of business. I hope your committee will give this bill a favorable report as soon as possible so that the full Senate can pass on this legislation.

I thank you again for allowing us to be here today.

Senator GORTON. Thank you, Mr. Lensing. I think your last substantive point is the key to this entire discussion. If we are persuaded that this will in fact help the farm economy and for that matter help banks, and that it won't penalize the fiscal structure of

the United States or threaten the FDIC, obviously, we are going to support something of this sort.

Nevertheless, I'm sure you all realize that those are controversial statements. For example, it's my understanding—I guess this is for you and Mr. Hayes—that you have been unable to get the support of the Louisiana Bankers Association for this proposal. Is that correct?

Mr. HAYES. I wouldn't know. I never asked them for their support.

Mr. LENSING. I haven't either. I haven't had any discussion with them at all.

Senator GORTON. Well, that's a rather frivolous answer to my question. It may be a good debating point, but I'm here getting information. Is it true that the Louisiana Bankers Association—I would think when you're dealing with the FDIC and with something which relates so significantly to bankers, that it would have been at least been discussed with that association. It has not been by anybody?

SUPPORT FOR S. 1151 IN LOUISIANA

Mr. HAYES. I can tell you, the only two groups that I'm aware of—I do not know whether it's ever been discussed by the Louisiana Bankers Association. I can tell you that the Louisiana Farm Bureau endorsed the bill and I can tell you that the Louisiana Legislature unanimously passed a resolution in favor of this bill.

I didn't mean to be facetious. I simply meant that I'm not aware of any discussion ever held by the Louisiana Bankers Association on this bill.

Senator GORTON. Is that correct, Mr. Lensing?

Mr. LENSING. Nor am I, Senator. We had a little seminar in Louisiana some weeks or maybe a month ago or so and I think they were present, but they did not comment to me or suggest to me one way or the other they were for or against the bill. I'm really not aware of that.

Mr. HAYES. I know there's been no bankwide vote on it, for example, and I know it hasn't been brought to one of their State conventions as a matter on agenda.

Mr. LENSING. Let me just say this if I could, Mr. Chairman. I can't foresee why anyone—there's nothing mandatory about this bill. It doesn't require any bank to participate under the terms of this bill. What's more, even those that do make application for relief under this act must ultimately be approved by the FDIC, so there are ample safeguards built into this bill.

Senator GORTON. Have either of you or Mr. Hamilton discussed it with anyone representing the FDIC?

Mr. HAYES. Only with the regional director, Mr. Halvorson. I have never discussed it with anybody in Washington at FDIC.

Mr. LENSING. I have just talked briefly with one of their officials of the FDIC here in Washington and he at that time had really not had an opportunity to look at it.

Senator GORTON. We don't have an opportunity to hear from them today. We're not going to be able to hear them until September. But would you anticipate that FDIC would support it or what

would you say if they did not? This is the only time I've got to ask you that question.

Mr. HAYES. I would be most interested on the grounds—of course, it would be speculative as to whether they would or they wouldn't, but I would be most interested on the specific grounds, because the way the bill now reads which gives the FDIC such tremendous latitude, I would be hard pressed to imagine what the source of opposition would be since it's not a mandatory implementation.

Senator GORTON. That's true. As I understand it, they would have to make a determination that the bank could "survive, remain viable, and show a net profit." Is that not correct?

Mr. HAYES. Clearly, they have the discretion that exists in the bill.

Senator GORTON. Are they going to be able to make such a finding in the absence of significant change in the fundamental economics of the agricultural community itself?

Mr. HAYES. Well, they make that determination every day in a different manner. When they do a CAMEL rating at the end of an examination, they in effect rate management and they in effect rate whether the loans are substandard for reasons that they're related to community problems, or substandard for lack of information, or substandard because they're poorly managed by the bank. So they presently make that determination for a different reason and clearly they're cognizant of which banks fall into the agricultural category. I think they could make that determination without any difficulty.

Senator GORTON. I think you missed the thrust of my question. It may be more for Mr. Lensing than it is for you.

In the absence of a fundamental change in the nature of the agricultural community, agricultural economics itself, are they ever going to be able to make that kind of finding, that the bank which is engaged in this kind of business primarily can survive, remain viable, and show a net profit?

PROVIDES TIME FOR BANKS TO SURVIVE

Mr. LENSING. Well, certainly some portion of that judgment is going to be subjective. But we have prepared—and in the booklet—I hope it's been distributed to all of you—we have a model in there that shows typically or hypothetically how a bank could function under the terms of this bill and it shows that a bank can be viable.

Now for the FDIC to question a bank on any individual loan that it might write down would be a terribly cumbersome thing for them and probably impossible for them to do, but to answer your question specifically, I don't think that with an absolute degree of certainty they're going to be able to say that any agricultural bank, or a John Deere dealer, or anybody else in an agricultural community is going to be able to survive a year from now unless things do change. But the cornerstone or the key to this bill is that it provides time and gives the farmers and the bankers an opportunity to survive for a period of time until things hopefully do get some better.

Senator GORTON. How central to the theory of this bill is its determination or use of new accounting practices with respect to the

capital of the bank? Would the bill be useful at all or would it destroy the bill to amend it so that the regulatory accounting procedure couldn't be utilized by a bank which doesn't have a positive capital under generally accepted accounting procedures? You could do the other things, but if you couldn't get into it as a bank unless you had positive capital under generally accepted accounting practices—maybe Mr. Hamilton, you're the CPA, would that go to the heart of the bill?

Mr. HAMILTON. I think the model that was prepared of the bank's capital with severe writedowns went down around 3 percent positive. Well, 3 percent positive capital is the standard for thrifts. So you're at the top of the scale. Under the act it goes back up to 11 percent and allows the bank to work out.

So in answer to your two questions, as long as it had a positive capital I don't think it would damage the application of the model of the bill.

But what it does, as David mentioned, it allows the bank to work out without having to raise substantial capital to meet the 6, 7, or 8 percent and they're projecting 9 percent capital requirements of the FDIC. This is just unrealistic. It can't work that out in 1 year.

Senator GORTON. Do you agree, Mr. Lensing?

Mr. LENSING. Yes; a 9-percent capital requirement—I noticed the ABA even commented and said that that would be an unrealistic minimum capital requirement for small rural banks because they don't have the ability to go to Wall Street and raise capital. They have to raise it locally.

Senator GORTON. Let's have one more capital question. If this bill were adopted and were utilized by a given bank, would you be able to raise capital under those circumstances? Hasn't it been the experience of thrifts which have used the analogies that it's very difficult to raise capital under the circumstances of that bill?

Mr. LENSING. Well, I don't know that it would necessarily improve the ability of the bank or the stockholders of the bank to raise capital, but that's really the purpose of the bill is to provide relief to the bankers and to the people who do business there.

Senator GORTON. Without having to raise additional capital.

Mr. LENSING. Without having to raise additional capital, simply because it's not there to raise, Mr. Chairman. I mean, communities where many of these small rural banks are located, the people to whom you'll go to raise capital are already financially strapped. They physically don't have the money to put into the capital accounts of a bank. It's just simply not there. That's the reason for this bill, is to—rather than to take such terrific hits to the capital accounts of the banks in 1 year it provides the time over which hopefully there would be a situation where capital could be raised again.

Senator GORTON. Thank you.

Mr. HAYES. Senator, if I may, I also sit—Louisiana is in the minority of States where the commissioner of financial institutions also sits over the thrift industry as well as the banking industry, so I have a real comparison that maybe some State administrators would not have. It's difficult to answer that question because it's like talking about airplanes without making any distinction of kinds of airplanes.

The thrift industry in Louisiana, for example, might have representatives who would come tell you it's difficult to raise capital and yet, on the other hand, you can take 20 of the institutions where their posture, their location, their size, and they would have no trouble whatsoever doubling their capital.

This bill, on the other hand, deals with just a segment, a profile of an agricultural bank, and they look extraordinarily similar. There are 35 in Louisiana, for example. If you change the names, it wouldn't make any difference. If you looked at their financial statement, their balance sheets, they all look just alike. They're all about the same size. They all face generally the same problems. That's why it's hard to do an apples and oranges comparison back either to the powers under the Depository Institutions Act or the amendments in 1982 as opposed to its implications here for the very simple reason that we don't have a diverse industry all under that broad named thrift but we're dealing with a very similar looking profile of institution and the impact in that case, especially with discretion given the FDIC, is much more predictable I think than it would be on trying to predict what would have happened in 1980 or 1982 for an entire industry on that broad sweeping legislation.

Senator GORTON. Thank you.

Senator Dixon.

Senator DIXON. Mr. Chairman, I have no questions, but I'd like to thank this very fine panel, particularly on behalf of their distinguished Senator, Senator Bennett Johnston, but also on behalf of all the other sponsors of this bill, for taking their valuable time to come up here and testify before this committee. We appreciate it.

Senator GORTON. Senator Sasser.

Senator SASSER. Thank you, Mr. Chairman.

Mr. Hayes, we heard informally, not as a committee, but some of us heard informally a few months ago from your counterpart in the State of Iowa, and as you know, Iowa is principally an agricultural State or at least that's my perception of it. I don't say that in a disparaging sense. There's a lot of agriculture in Iowa and we all know that. As a result, there are a lot of agricultural related banks there. And the thrust of the commissioner's of banking statement in Iowa was that the banking community there was in real trouble. They were undertaking a bank-by-bank audit and I forget the precise percentage of banks that he said were troubled banks, but it was a very high number and it was the result of agricultural related loans.

STATE OF THE BANKING INDUSTRY IN LOUISIANA

What can you tell us today about the state of the banking industry in the State of Louisiana and can you make a distinction between the banks that are primarily engaged in agricultural related loans and those that are not?

Mr. HAYES. I think, Senator Sasser, that you anticipate the answer just from your knowledge and experience on this committee.

Banking in Louisiana is reflective, perhaps for different reasons in some locales—but reflective directly of banking in the United

States. There is no question but that each day and each further examination reveals another problem we didn't know we had. My predecessor had a list of problem banks in Louisiana. His list never grew past 17. My list presently has 78 on it. Every time we examine a bank that we've missed for the last 2 years, the odds are 3 to 1 that the bank is going to have deteriorated substantially.

One bank in St. Landry Parish that I closed had had a 1½ year previous exam in which the bank was considered, I guess, average for the State of Louisiana. Within 30 days of the subsequent exam, I closed it. This is the kind of thing that we're finding on short-term deterioration and you gentlemen do not have an enviable task, because those numbers are going to force action.

I would like, when the FDIC or anybody else testifies, if someone has an opposition to this bill, that's not good enough. What's the alternative? You can't simply take a shot at the bill because I can tell you some things that are wrong with it, like so much that we do, like so much legislation. That's why we amend it. That's why we come back with improvements. But I can tell you this. Any person who does not have an alternative to suggest should fear doing nothing because the inherent risk in doing nothing is predictable and assuredly will destroy the banking system in this country.

Senator SASSER. Well, let me ask you this, Mr. Hayes. What do you attribute the decline in the banking industry in your State to? What do you think is the problem? Is there a single problem or is it a whole constellation of problems?

Mr. HAYES. I would say it's a combination. The agricultural banks that we're talking about are clearly identifiable because of the parishes in which they're situated. In southeast Louisiana and all the way to metropolitan New Orleans, we have some energy bank problems. We also have some tremendous problems associated with real estate inflation and sudden deflation. This, I assume, is consistent throughout the country. The numbers are there. Probably the percentages of what is caused by what varies.

Louisiana, for example, would have less of an agricultural bank problem than would Iowa in the aggregate. But where the problem exists, with our 35 banks, I suspect would look just like Iowa on an institution-to-institution comparison.

Senator SASSER. You would have an energy bank problem in Louisiana that they probably would not have in Iowa.

Mr. HAYES. That's correct, and so would east Texas, for example, have higher energy problems. So would some Oklahoma institutions. But in the agricultural sector, the crops may differ, but the bottom line is almost identical in every one of those cases.

Senator SASSER. Do any of you gentlemen have a number as to the depreciation in the value of farm land that's taken place in Louisiana or Mississippi in the past year? It was 6 percent in my State, which is not a bad number.

Senator DIXON. May I put in the record that it was 26 percent last year in Illinois?

Mr. LENSING. Senator, let me address that for just a second. I don't really know how the Department of Agriculture compiles their statistics. They can be awfully misleading, in my opinion, because when you start measuring the sale of land that adjoins or is adjacent to a metropolitan center—I'm talking about farm land—

the value of that land will differ or vary because it may be used for a subdivision development or something of that nature.

I can tell you in the community where I live we don't have anything such as that. Land in our parish simply has not sold. There is no——

Senator SASSER. There is no buyer.

Mr. LENSING. There is no buyer. And to tell you how much it's fallen in East Carroll Parish, LA, would be a totally speculative guess on my part and I suggest it would be the same for anybody else. My suspicions are—I don't want to believe what I think, but I think that the values have fallen much, much further than they've been measured by the Department of Agriculture.

Senator SASSER. Well, gentlemen, one final question here. Do any of you have any estimates of the number of producers or farmers that might be able to stave off bankruptcy if this legislation were enacted either in your State or nationally, or do you have any percentage figure?

Mr. LENSING. Senator, I might speak to that just briefly.

A good many of the farmers, equipment dealers, fertilizer suppliers, those sorts of people, are doing business at commercial banks. The medium-size farmer does his business by and large at commercial banks. Some do it PCA's. But the very small farmer is primarily already being serviced at the Farmers Home Administration.

MEDIUM-SIZED FARMERS HURT THE MOST

The farmer that is the most financially strapped today is the medium-size farmer because the small farmer can generate income from working on a pipeline in the wintertime or something like that. The medium-size farmer dedicates 100 percent of his time to farming. He doesn't have the efficiencies of the corporate scale farming. But those farmers, in my opinion, are the backbone of this country. They are the most efficient farmers.

This bill would go right to the heart of that problem. To give you a number, no, I can't. I would just be guessing to do that, but I do know that it will address, I feel, a large number of medium-size farmers and other operators that are agricultural-related type businesses.

Senator SASSER. Well, there's no question about the fact that that's where the problem is, with the medium-size producer who is engaged in full-time farming. That's where we have the crisis in the farming community.

Mr. Chairman, I had one more question but it escapes me. If it occurs to me I'll submit it for the record.

Senator GORTON. All right.

Senator Dodd.

Senator DODD. Well, Mr. Chairman, first of all, my apologies to you and the committee members and our witnesses for being a little late getting here this morning. I have an opening statement, Mr. Chairman, which I'd ask unanimous consent be made a part of the record, and I've taken a good long look at your testimony and I would just point out, although we have a tendency I suppose to look at these things as being a problem for farmers and agricultural banks in the States in which they're located, coming from New

England, while we're not much of an agricultural sector any longer, it's a national problem and my constituents are no less concerned about what happens to the farmers and the agricultural banks than certainly the people of your States. My good friend and colleague, Alan Dixon, has a piece of legislation which he's submitted which I'm going to look forward to being supportive of in an effort to deal with these problems. They are complex and there are no simple solutions, and you have been articulate in your testimony this morning and I thank you for being here.

Senator GORTON. Without objection, Senator Dodd's statement will be included in the record.

STATEMENT OF SENATOR CHRISTOPHER J. DODD

Senator DODD. Mr. Chairman, over the past few years, many things in the banking world have turned topsy turvey. Loans for oil exploration and equipment were a sure bet, because the price of oil surely was going to $60 a barrel. Only it didn't. Loans directly to foreign governments were as good as gold because surely a government would never default. Only some contemplated it when their economies turned sour.

The recent dramatic problems with farm loans are another example of these unfortunate and, in many ways, unpredictable twists of fortunes that seem to be occurring with alarming frequency. Yesterday, FDIC Chairman Isaac testified that one-third of the banks on the agency's problem list are small agricultural banks. The problems are severe and getting worse.

I do not know what the best way to treat these problems is but I know that it is important that we try to find a good solution. It is important for the farmers, their banks and their States, but it is also important for the people of my home State, Connecticut, because all Americans have a stake in the outcome.

Mr. Chairman, I am pleased that Senator Dixon has presented a bill to this committee for consideration, S. 1151, and I look forward to hearing the comments of our distinguished witnesses.

Senator GORTON. Thank you all very much. I join in Senator Dixon's appreciation of your willingness to help and present your ideas.

The final panel will consist of Mr. Bailey and Mr. Dodd.

Senator DODD. No relation either.

Senator GORTON. I was just going to say we had a relative of yours.

Senator DODD. I don't know. Let's hear his testimony first. [Laughter.]

Senator GORTON. Well, in fact, we're going to hear his testimony first because he is a constituent of Senator Dixon and the Senator was called to another place and would like to——

Senator DODD. I've always found, Mr. Chairman, that depending upon how you're doing in politics, you would be amazed at how many relatives you have or how few you have. [Laughter.]

Senator DIXON. Well, Mr. Chairman, may I say, first of all, in a moment, I want to introduce Mr. Dodd, but I want to say I'm delighted to have Mr. Varel Bailey here, who is the president of the National Association of Corn Growers, because my legislative as-

sistant for the Agriculture Committee, Scott Sheer, has gone to the National Association of Corn Growers and I treasure him as a great friend and an outstanding person who understands American agriculture. So his president is certainly welcome here and may I say to my distinguished friend and colleague, who's one of the two members of the freshman Democratic class of 1980 and the chairman of our class, that I'm delighted to introduce to him from Loami, IL—remember that—the president of the Illinois Farmers Union, a man whom I have known and considered a long and dear friend for all of my adult life, a man who has contributed so much to agriculture and public life and its understanding of agriculture in our State, the distinguished president of the Illinois Farmers Union, Harold Dodd. And Chris, you would be delighted to be related to this fine man.

Senator DODD. I believe you.

Senator GORTON. Mr. Dodd, under those circumstances, you can't lose.

STATEMENT OF HAROLD DODD, PRESIDENT, ILLINOIS FARMERS UNION

Mr. DODD. Thank you, Mr. Chairman and members of the committee. I am Harold Dodd and I do live on a farm in Loami, IL, which is about 20 miles southwest of Springfield, IL, the State capital, where I have lived and presently live for 41 years.

I want to say at the onset that it is certainly enlightening to hear these people just ahead of me talk about the importance of agriculture in the whole economic scheme of our Nation because I have always felt that way and I thought that this town was full of people who really didn't understand the importance of agriculture to the whole economic scheme of America. And it's enlightening to hear other people in other walks of life feel as I have always felt.

PESSIMISTIC ABOUT IMMEDIATE FUTURE

You have to know that since I have told you that I live on the same farm for 41 years, that I am a natural born optimist. I don't believe you could be a farmer and not be a natural born optimist. But by the same token, I want to tell you that I am the most pessimistic presently about the immediate future than I have been in all my life and I'd like to elaborate just a moment or two to tell you why that pessimism prevails.

Every place that I go in this town I hear talk about the 1985 farm bill which we must go by the market-oriented plan. Market-oriented plan is designed and created for no other reason other than to cheapen our prices. Those thoughts are based upon total fallacies. I believe the No. 1 thought that they have—this is what they keep telling me about—is that we must cheapen our prices to discourage we farmers from wanting to grow as much corn. I'd like to address that just a moment and tell you why I believe it's a total fallacy.

In 1954, the then Secretary of Agriculture, Ezra Taft Benson, was of the same opinion. So he lowered the price support in the Farm Program from $1.60 to $1.06. Now I want to tell you that it's

on the record over there so anyone can check out my statements. What really happened after he did this?

The first thing that happened, the cost to the Federal Government in the Farm Program increased 73 percent and as far as the supply was concerned of corn, we built a surplus or the carryover if you will of corn from 500 million bushels to 2 billion bushels. Now why? The real reason is because the farmer, the only way in the world he knows how to attempt to meet his fixed costs in times of bad prices is to some way farm more units to sell, and he will farm the fence rows, the gardens, and everything else and he will always increase his production. So it's an absolute fallacy to believe that if we lower the prices that we will get rid of production or, as the Secretary puts it, our prices are inciting more production than we can sell. And I said:

> Mr. Secretary, I agree with you we're producing more than we can sell, but the reason is the opposite reason. Out of the sheer necessity to survive, is why we're farming the 900,000 acres of land in Illinois that according to SCS standards should not be in row crop. We're doing it because of the necessity to survive.

So it's the opposite reason.

Then the other reason that they give to cheapen our prices by the market-oriented method is to make ourselves more competitive in the world market. Now most of us know that the European Common Market is presently supporting the price of corn at $5.08 a bushel to their farmers and are presently underselling us in the world grain export market. There isn't any reason for me to believe that if we lower our price $1 a bushel that they won't do likewise, and their farmers will survive because of subsidies, but ours will go broke wholesale.

Conversely, if we increase our price $1 a bushel, by some sort of land management programs, which will effectively control the supply and enhance the price and we increase our price $1 a bushel, does anyone believe they will still leave their price down here at the bottom? Of course not. They will raise theirs $1 a bushel. The only difference is they will keep their price just barely under ours the same degree of margin it is presently and they will have to subsidize their farmers less money, but they will follow our price. They always have and they always will. Go over and talk to them and this is what they will tell you.

So the reason why I am so pessimistic is because I find so many people subscribing to the theory that we must cheapen our prices, go with the market-oriented idea to cheapen the prices, when the real crisis has been brought on us—any farmer who knows his salt will tell you that the real crisis has been coming on us for quite some time and that's inadequate prices in relationship to our cost inputs, and I want to emphasize that last part of my statement because there has been decades on the same farm that I live on where I could have prospered well with $2.60 corn. But, gentlemen, they weren't in the times of $80,000 tractors and $120,000 combines and $1.30 diesel fuel, 14 percent interest and $75 a bag for seed corn.

So I want to emphasize that it is not so much the price of our commodity that has gotten us into trouble, but it is the cost inputs. But I want to tell you the uniqueness of agriculture. As far as I've been able to determine, we are the only class of people, business

people, left in this world who buy everything they buy retail, sell everything we sell wholesale, pay the freight both ways, and have no seat at the bargaining table. This is our unique position so far as being able to negotiate for a price or to negotiate for something we're going to buy.

Now if you know that the crisis has been brought on us by inadequate prices, it's true that that's been aggravated by increased value of the dollar and also the high cost of money. But the basic cause is inadequate prices. So if you think inadequate prices caused the crisis and you're going cure the crisis by lowering the prices, then you come from a different school of thought than I do.

So therefore my way of explaining why this optimist is so pessimistic is because this is what I keep hearing, and I know it to be based on fallacy and I think the only end result is going to be with a market-oriented plan is to drive 50 percent of the farmers that are now in business out of business.

FARM POPULATION HAS DROPPED TO 2 PERCENT

Now we had 18 percent of our population in 1954 farming. We have reduced that now to slightly more than 2 percent. And most of that was healthy. But let me tell you something. When you decrease the number from 2 to 1 percent, I think then you run into a very close analogy to what the oil people did to the price of oil, when for 50 years the price of crude oil was $3.40 to $3.50 a barrel and we kept eliminating numbers and eliminating numbers and buying out and merging with until the number got small enough they formed OPEC and drove the price of crude oil from $3.40 a barrel to $30 a barrel, then backed it up to $28 and people in America think they're in hog heaven. Well, I think that's exactly what's going to happen when we drive 50 percent of the existing family farmers out of business, do away with competitiveness, get it into the hands of few enough that they will form a oligopolistic organization and do to food what the oil people have done to oil. I am not an alarmist. I am not a radical. But I do believe I'm a realist.

So I think, having told you why that I am such a pessimist, having been an optimist all my life, I think this then spells out the reason why that we're stuck with deflation.

The thing that brought the crisis to the real forefront as far as the banks are concerned and the bankruptcies of all the farmers are concerned is that for several years we have been contending with cheap prices in relationship to cost inputs. We could cope with that as long as we were having 14 percent inflation because what we lacked in price we made up with inflation in our values. But when the pendulum swung, as usual, it doesn't swing to the middle, it swung the other way, and then we got stuck with humongous deflation. The price of land in my community has deflated 40 percent in the last 3 years. All of the loans at the banks are tied to the values and every time that there's more foreclosed upon that means more land for sale and no buyers and, therefore, a further deflation of values and, therefore, another layer of loans in trouble.

So I think the main thing we need to address and certainly this is no cure-all, it is another Band-Aid if you will, but it's an important Band-Aid. Sometimes you have to use Band-Aids before you can cure the wound. The real cure of our problem is to get our prices into a better relationship to our cost input so that the farmers can begin paying off loans and debts instead of accruing more. But this is a real important thing to do to stop further deflation of our land values because it creates a method for the banker to work with the farmer and keep the farmer afloat by reducing his loan to a cash flowable position. It will therefore keep another farm from being foreclosed upon which further deflates the value which further gets more loans in trouble.

So I appreciate the opportunity to come here today to express some of my viewpoints and tell you the importance that I attach to this, fully knowledgeable of the fact that it is not a cure-all. The cure-all is better prices. But I don't see better prices. I see a farm bill which is going to be decided here as to whether or not we have cheaper prices or increased prices, and I see everything pointing to the fact of cheaper prices. I therefore agree with the President on one issue, you ain't seen nothing yet because I believe that things are going to get much worse as far as agriculture, and these people who were here ahead of me did an eloquent job of telling you what agriculture really means to the whole economic well-being. We're running a scary analogy to 1925, 1926, 1927, and 1928 when the agricultural was dragging on the bottom and the stock market making new highs and everything else seemingly booming. That all culminated in the 1929 market crash which triggered a 4-year depression which none of us want to see. And I lived in those times. I was going to high school in 1931-35, so I can well remember that depression and I would like to do anything that I can to ward off that and I think that's where we're headed unless we turn the agricultural community around—and when I say agricultural community, I want to emphasize that it's far more widespread than that 2 percent of farmers.

I read just recently on some literature that came across my desk where 4 percent—the farm equipment operators are operating at 4 percent of their capacity. Look at the unemployed people because of that. We farmers aren't paying any income tax because we're not making any money. We have lived off our appreciation and now our depreciation we're caught up because deflation has done away with anything to borrow against.

Again, I want to thank you for listening to me and I appreciate the opportunity, Alan, for inviting me over here to give my viewpoints. Thank you.

[The complete prepared statement follows:]

Illinois Farmers Union

TESTIMONY IN SUPPORT
OF SENATE BILL 1151
THE FARM CREDIT RELIEF OF 1985

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My name is Harold Dodd, I am President of the Illinois Farmers Union and also a corn and soybean farmer from Loami, Ill., which is in Sangamon County.

I enthusiastically support this proposed legislation both personally and organizationally.

I believe this will provide the necessary means for many rural bankers to survive, I further believe, it will allow many farmers to stay in business that will otherwise be foreclosed upon.

This proposal creates a terrific incentive for the lender to work out a financial arrangement with his farmer customer that will allow both to stay in business. Whereas, if the lender refuses to cooperate and forces the farmer into bankruptcy, he will have to write the entire loss off in one year.

Too many foreclosures is the basic cause of the continued rapid decline in land values so, this bill in my opinion, would slow the forced sales and thereby tend to stabilize land values.

40 ADLOFF LANE, SUITE #1 • SPRINGFIELD, ILLINOIS 62703 • TELEPHONE 217 / 786-4220

In closing, let me say, that the farm credit crisis was and is largely caused by an inadequate price for our commodities in relationship to our cost inputs - with additional contributions by way of high interest and high value of the dollar. Now, if this cause of the crisis is not corrected we are only prolonging the inevitable. If our problem can be corrected by lowering the prices of our commodities I would be the most surprised person in the world!

I urge your support for this bill because the crisis is <u>real</u> and will effect much more than agriculture if not corrected. If you have further questions, please call or write me.

Thank you for considering my viewpoints.

Senator DIXON. Mr. Chairman, I want to thank Harold Dodd and I want to thank Mr. Bailey as well. I have to go to a conference committee on the DOD authorization bill where a vote is taking place right now. I thank the Chair so much for his courtesy today and I thank these witnesses.

Senator GORTON. Mr. Bailey.

STATEMENT OF VAREL BAILEY, PRESIDENT, NATIONAL ASSOCIATION OF CORN GROWERS

Mr. BAILEY. Thank you very much, Mr. Chairman. It is a pleasure. It's also a real temptation to debate the Farm bill here following Mr. Dodd and we discovered in discussions and comments earlier that even though we come from slightly different perspectives possibly, farm income is what it's all about.

I'd like not to pursue that, though, but I'd simply like to say that the National Corn Growers Association does support the concepts held in S. 1151.

TASK FORCE SET UP

About a year ago, the organization decided that the financial problem in agriculture was too great to ignore and we set up a special financial task force to consider the problems in all the financial lending institutions providing credit to agriculture and have been studying this very closely ever since.

A thing happened though last spring, and there was a comment about Tom Huston, superintendent of banking from Iowa, being in and testifying. When he was in this town, he and Governor Branstadt of Iowa visited the OMB and presented the problems in Iowa to them and during that meeting it was relayed to me that Mr. Stockman informed the Governor that:

> Look, until you can prove that the problems you're having in agriculture are going to affect the rest of the people in this country, you're probably not going to get much help.

This came through the agricultural community, including the corn growers, and we decided to take inventory as to where we were and what kind of proof we could put together. We discovered that Farm Journal magazine was conducting a coast-to-coast study of the financial conditions in agriculture. We had already been working with the Food and Agriculture Policy Research Institute at the University of Missouri and Iowa State considering the potential alternatives for farm programs.

We also knew that Iowa State University had a special agricultural financial task force taking the preliminary work and rolling it into enterprise budgets, and into farm incomes.

There was only one missing link, and that was: How do you take these numbers that we have now from agriculture and apply them to the macroeconomy of the United States?

We went to Wharton Econometrics, who have done several studies on this type of thing, and asked them if they could do it. They mentioned to us that they had studied the problem of the potential default of Mexico and the other Latin American countries and our problem potentially was similar. So, we asked them to take the agricultural financial numbers and do a study for us.

At this time I'd like to say that I invite everyone here on the Hill and in Washington to a full presentation of this report by Dr. Lawrence Kline, Wharton Econometric Nobel economist. The presentation will be in EF-100 of the Capitol. It will be July 31, at 2 p.m. I really urge everyone interested in agriculture's problems and how it relates to the general economy to be there.

Yesterday, we announced a preliminary release, so we would have some preliminary numbers on that. I gave copies to the staff and I hope that everyone on the committee gets a copy.

I might just mention a couple of items that jump out at you and that's the bottom line of "Executive Summary," and it states as follows:

> Loan losses of $20 to $25 billion are expected to increase short-term interest rates by 75 to 125 basis points, reduce total employment in the country by 175,000 to 275,000 jobs, reduce total GNP by $30 to $50 billion over 8 years, and increase the Federal deficit by $14 to $21 billion by 1993.

Now, that's not the worst case scenario. There are four scenarios presented in there. This is the middle-of-the-road approach. It's not a prediction. These are simply working numbers that we hope the decisionmakers in Washington use to tally up the total cost to everyone of our financial dilemma.

I live in Anita, IA, halfway between Omaha and Des Moines. I know what this financial crisis is all about. The bank in Massena, 12 miles from me, has failed. Oakland, IA, 35 miles from me, has failed. The PCA stock is frozen in my local area. I get calls weekly at my home from Federal land bank loanholders saying, "What should I do?" It's tough counseling out in southwest Iowa. There is real economic cost to everyone. There is real social cost.

I think you will find that the study, when fully presented, will say that $1 invested to correct the problem now is a very good investment.

Let me turn now briefly to some of the other things that the special task force on agricultural finance are looking at. One of the things that entered into this when we started talking to other groups is we find that very few people are thinking about the credit institutions that are going to serve agriculture long term; the basic question of do we want centralized control of the credit institutions that serve agriculture or do we want decentralized control; what kind of safeguards need to go into those institutions to avoid supercapitalization of agriculture that many say happened during the late 1970's? What mechanisms must those institutions have to avoid hyperdecapitalization that some are saying is happening right now? Does agriculture after the year 2000 need a preferred source of credit? Does it need preferred terms of credit to fit the biological and market situation of agriculture?

These are questions that we're working on very aggressively. We hope this committee considers them as well.

SHORT-TERM EQUITY/DEBT PROBLEM

On the short term, we really have an equity/debt problem and there's a handy little formula that I think everyone ought to consider as to how most farmers think of the price of land. I know a question on an earlier panel was: What is the price of your land?

Basically, I think most farmers, maybe not consciously but subconsciously, say, well, the price of land is the price of the commodity that comes off of it times the yield minus the variable costs divided by the interest rate. And let's just take some numbers here.

Let's take $3 corn, 100 bushel yield. You've got $300 an acre. Say that the variable for seed, fuel, and all those other things are $200. This means you've got $100 net to work with in this case. You have 10 percent interest rates, so you have $1,000 land. Real easy.

Now, let's take the price of corn to $2.50. The yield is still 100 bushel and you've got $250 gross. The cost is the same. So, you've got $50 net to work with. Interest rates haven't changed, 10 percent. Your land is now worth $500. It's a real simple equation that shows why in this case in our little equation a 50-cent move in the price of corn cut the value of land in half.

Now, it's no problem if you own the land outright. But if you have a loan on it, that equation is killing you because you no longer have the equity to support that loan.

What can be done? Well, short term, what we need is time, and this mechanism in S. 1151 is a time mechanism to allow us to readjust if the adjustment is necessary.

There are a couple of things that I don't know the answer to and I simply want to raise at this time on mechanisms of this type and that is what are the tax ramifications, what is the alternate minimum tax ramification on this bill, and I urge the committee to go back and take a look at some of the IRS regulations and some of the other things that are hitting the farmers out there when they attempt to do some of these debt restructuring things.

To our examination, the bill does a lot of beautiful things. We urge further research on it. And at this time I would entertain any questions which you might have.

[FAPRI staff report No. 9–85 follows:]

A Preliminary Summary Report on

Economy-Wide Impacts of the Farm Financial Crisis

FAPRI Staff Report #9-85
July 1985

Contributors

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A Preliminary Summary Report on
Economy-Wide Impacts of the Farm Financial Crisis

1. Introduction

Evidence of a serious financial crisis in U.S. agriculture continues to accumulate. Early warnings of this debt/financial crisis have been loan delinquency rate increases, selected rural bank failures, and deteriorating farm balance sheets as indicated by state level surveys. Government data, the Federal Reserve Reports, and the ERS/USDA surveys have confirmed that the farm financial situation is deteriorating. These data and reports, however, were not produced with sufficient lead time to allow effective monitoring of the rapidly deepening farm credit crisis of late 1984 and 1985.

To close the information gap and to assess the extent and magnitude of the farm credit crisis in time for appropriate corrective action, Food and Agricultural Policy Research Institute (FAPRI) joined the Farm Journal magazine in conducting a national survey in December of 1984. The survey was designed to identify the incidence and extent of the farm credit problem at national and regional levels, by farm type and by tenure. With this survey information and farm price and income projections from FAPRI, it was possible to anticipate, under various Farm Bill options, the implications of the farm debt crisis. The magnitude and scope of corrective actions required to deal with the crisis were suggested as well.

The Farm Journal survey confirmed that the farm financial problem was not confined to a few states that had conducted early surveys. In December 1984 the Central and Western regions were worse off than the South and East, but the national average debt conditions were very similar to results of the state

surveys conducted one year earlier and confirmed estimates made by the Federal Reserve. Of the $211 billion total farm debt, up to $140 billion is held by farmers experiencing financial stress.

The FAPRI analyses of 1985 Farm Bill options revealed a weak farm income outlook for 1985-1990 under the level of income protection provided by current programs. Very low levels of expected net farm income would result if government supports were to be removed. As net farm income declines, the ability of farmers to service outstanding debt is reduced, leading to more liquidation of land and other assets, and lower land values. These conditions increase the number of farmers who become insolvent and the magnitude of loan losses to lenders.

Concern about the potential impact on financial markets of large loan losses led to the Wharton Econometrics Forecasting Associates analysis, which investigated the macroeconomic consequences of the farm financial situation. The Wharton analysis shows that there are potentially serious consequences of the farm debt crisis on the U.S. economy. These impacts are higher interest rates, lower employment, reduced gross national product, fewer housing starts, lower personal income and a larger federal deficit. The Wharton analysis indicates that if preemptive actions are not taken, the loan losses could significantly effect U.S. financial markets. Such outcomes would seriously jeopardize the farm sector and impose important costs for those not directly employed by or involved in agriculture.

The potential negative economy-wide effects of a farm financial crisis and in addition to these the direct adverse impacts on agriculture, call for comprehensive measures to address the problem. Clearly, if farm sector financial failures should rise sharply, actions by the Federal Reserve, the U.S. Treasury, and the U.S. Congress will be required to stabilize farm asset markets and maintain order in the national financial markets. The analyses described below

and in the complete supporting studies have been developed to give U.S. agriculture and those who determine farm policy, financial market policy, and Federal fiscal policy an opportunity to design corrective actions for the farm financial crisis that are efficient and timely. Early corrective and preventive measures will be less costly than absorbing the impacts of doing nothing or approaching the problem in a reactionary mode. The stakes for agriculture and national economic performance are high.

2. The Approach

A straightforward approach was adopted in projecting economy-wide impacts of the farm financial crisis. This approach is best illustrated by the set of questions that guided the research at FAPRI and Wharton.

- **What is the debt situation for U.S. agriculture in total and by region, type of farm, and type of farm operator?**
- **What are the prospects of generating farm income sufficient to service this debt?**
- **What is the projected level of unserviced and discharged debt, and how is it distributed over time?**
- **What are the economy-wide implications if no action is taken to counter the impacts of the farm debt losses?**

These relatively simple questions were evaluated using the Farm Journal survey, the FAPRI agricultural sector modeling system, FAPRI financial models and the Wharton long-term model of the U.S. economy.

Results of the research organized by FAPRI to answer these questions are summarized in four reports (listed below) that will be released on July 31, 1985, at a briefing to be led by Professor Lawrence Klein, Nobel Laurate and Professor of Economics at the University of Pennsylvania. This preliminary report summarizes the analyses presented in Reports 1-4.

Report #1 - "National Farm Survey on Financial Stress," Farm Journal and FAPRI at the University of Missouri-Columbia and Iowa State University, July 1985.

Report #2 - "An Analysis of the Variable Loan Repayment Option for the 1985 Farm Bill," FAPRI at the University of Missouri and Iowa State University, July 1985.

Report #3 - "Farm Income and the Financial Condition of United States Agriculture," FAPRI at Iowa State University, July 1985.

Report #4 - "Economy-Wide Impacts of Agricultural Sector Loan Losses," Wharton Econometrics Forecasting Associates, July 1985.

3. The Debt Situation for U.S. Agriculture

Information on this question is drawn from the Farm Journal and supporting surveys now available for states and the U.S. as a whole. The analysis of this information is presented mainly in Report #1 with additional results provided in Report #3. In the Farm Journal survey, 8,000 owner-operators were randomly selected from a Farm Journal computer panel containing 1.1 million names. About 1,600 responses were received to a four page mail questionnaire. Of the questionnaires returned, 1,232 were useable for the analysis contained in Reports #1 and #3. Comparing this survey to national probability sample surveys from ERS/USDA indicates that both smaller and larger than average farms were overrepresented, but this limitation of the data was more than offset by its timeliness. Preliminary results were published two months after completion of the survey (Farm Journal, March 1985).

Major results from the analysis of the Farm Journal survey are summarized in Tables 1 and 2. Table 1 contains information on the distribution of U.S. agricultural debt by debt-to-asset ratio. The debt-to-asset ratio measures relative indebtedness and is a simple indicator of financial stress. Generally, farmers with debt-to-asset ratios less than 40 percent are not experiencing severe financial stress. As shown in Table 1:

- The majority of farms are in the low debt to asset ratio category. About 69 percent of farms have debt to asset ratios of 40 or less and hold only 37 percent of the farm debt.

- Farms in the 40 percent and over debt to asset ratio categories composed about 31 percent of the total and held about 63 percent of the farm debt.

- About 27 percent of farm debt is held by the 14 percent of farm operators with debt to asset ratios of over 70 percent. Farmers in this category will have a difficult time correcting their financial problems.

Much of the outstanding agricultural debt is held by a minority of U.S. farmers who are highly leveraged.

Table 2 contains information from the Farm Journal survey on average debt-to-asset ratios by age group and region. As shown in Table 2:

- The national debt to asset ratio is about 26 percent.

- Debt asset ratios are highest in the Central region and lowest in the East.

- Younger farmers have relatively high debt-to-asset ratios. The debt-to-asset ratio of farmers 44 years of age or younger is 10 percentage points above the national average.

4. The Net Farm Income Prospects

The FAPRI agricultural sector models have been used during 1985 to evaluate projected outcomes for U.S. agriculture under various options for the 1985 Farm Bill. Two of the options evaluated are the free market program advanced by the Administration (AAA85) and a variable loan repayment program (VLRP) that contains some of the elements in current proposals put forth by Senate and House members. The Administration program evaluated in March 1985 features loan rates and target prices that adjust to market price levels, and base acreage levels that adjust to actual planted acres. The essential result of the Administration program is that by 1991 the three year moving average loan rate is the only potential buffer for farm prices and income.

The VLRP is a stylized option for the 1985 Farm Bill. It reflects a concern voiced in many existing proposals that the move to a free market agriculture requires a transition program to cushion the impact. This program, as applied in the FAPRI analyses, involves a four-year freeze of loan and target prices and of base acreages through the 1989/90 crop year. Diversion and deficiency payments are used to manage supply. The name given the VLRP was coined from a feature of the program that permits participating farmers to pay back the loan at the market price or the loan rate, whichever is lower. With the VLRP the loan rate does not set a de facto floor on market prices. This aspect of the program along with the loan and target prices assures more stable farm incomes but more competitive price levels for U.S. agricultural commodities. The price path under the VLRP approximates that under the AAA85 option.

Results of the comparative evaluation of the AAA85 and VLRP options are shown through 1990 in Table 3. For the analysis, general economic conditions in the U.S. and foreign economies were assumed to be similar to those during 1984-85. Evaluation of the VLRP in July 1985 incorporates more recent information reflecting higher commodity stocks and lower exports. Details on these assumptions, the features of the programs and the outcomes for major crop and livestock commodities are provided in Report #2 and a comparison study noted in Table 3. The results of the farm program analysis are:

- Annual net farm incomes remain in the 21 to 27 billion dollar range under the VLRP, near the levels for 1985 obtained under the 1981 program.
- Annual net farm incomes fall to about 14 billion in 1988 under the AAA85 proposal and do not recover to the 20 billion dollar level within the 5-year period of analysis.
- Direct government payments average near 1985 levels under the VLRP and decline in later years, and no payments occur under the AAA85 after 1988.

In general, the FAPRI farm policy analyses do not paint a bright picture for U.S. agriculture. These findings reflect a substantial excess capacity situation in

U.S. agriculture at current loan rates, indicating that high government costs are eequired to maintain net farm incomes near 1985 levels.

5. The Projected Debt Discharge

Estimates of the level of asset and debt liquidation required to achieve short term financial stability are presented in Report #3. The stability criterion chosen was that the farm businesses be able to service outstanding debt. An allowance for capital replacement or risk reserve was not included. In addition, this analysis estimated the likely volume of loan losses as well as the principal and interest shortfalls that would occur under a range of economic conditions.

Major results from the projected financial analysis for U.S. farm firms are provided in Tables 4 and 5. Table 4 presents estimates of the volume of assets and debt that would have to be liquidated so that the remaining debt could be fully serviced. The cash rate of return expresses net cash income as a percentage of the value of gross assets owned by the operator. The recovery rate of capital measures the cash proceeds available for debt reduction following liquidation of an asset. The recovery rate takes into account both transaction costs and declines in asset market prices. Estimates of operators selling out were obtained by assuming that operators go out of business when they have a zero or negative equity position after all of their assets were liquidated to retire existing debt. Debt charged off reflects debt remaining after liquidating all assets of these farmers. These charge-offs are losses that must be absorbed by agricultural lenders and other creditors.

The interest and principal shortfalls were estimated at current debt and asset levels (Table 4). The "lower income" case is suggested by the net farm income stream projected by FAPRI for the AAA85 option. The "current income" case corresponds to income streams like that projected for the VLRP option. The

"improved income" case reflects a net farm income in the 30-35 billion range, exceeding that expected under any likely 1985 Farm Bill option.

From Tables 4 and 5, the major conclusions are:

- Approximately one-half of the outstanding farm debt cannot be fully serviced at current income and rates of interest. This figure increases to two-thirds in the lower income case.

- Annual principal and interest shortfalls from farm owner-operators are estimated at $2-9 billion over the four year evaluation depending on farm income levels and interest rates.

- Seven to seventeen percent of commercial agricultural assets in the U.S. will need to be liquidated in order to service the remaining outstanding debt; a liquidation rate three to four times the volume historically flowing through farm asset markets.

- For the more likely economic conditions evaluated, approximately 4 to 8 percent of the existing farm debt could be discharged by liquidated farm operations, respresenting a loss of $10-20 billion to all agricultural creditors.

Even under current farm income conditions, loan losses could be significant. If farm income falls, as expected under a program like AAA85, farm financial conditions deteriorate and loan losses increase substantially. This serious potential loss to the financial and agribusiness sectors stimulated interest in the Wharton study of macroeconomic impacts of the financial crisis in U.S. agriculture.

6. Economy-Wide Impacts

The macroeconomic effects of the agricultural loan default were estimated using Wharton's Long-Term Model of the U.S. economy. The Federal Reserve Board, the Administration, and the U.S. Congress are assumed to intervene as the loan defaults occur to insure the stability of the U.S. financial system. This intervention would be reactive rather than preemptive; actions would respond to loan defaults and actual or imminent failures of the affected financial

institutions. Preemptive actions, on the other hand, could reduce or eliminate the estimated negative macroeconomic repercussions of the agricultural sector loan default.

The main direct macroeconomic effect of the agricultural sector loan defaults would be an increase in short-term private interest rates due to the public perception of substantially higher risks being associated with financial asset holdings. This perception of increased risk would occur despite prompt action by the financial authorities, such as was the case for the Continental Illinois National Bank. Despite FDIC guarantees for all deposits, outflows became unduly large because of the inherent unease (perceived risk increase) associated with keeping deposits in a potentially failing bank. Although agricultural debt is dispersed among many creditors, the impact of large and widespread defaults on commercial banks and the Farm Credit System is expected to be sufficient to affect national financial markets.

The farm loan defaults had three direct impacts on the U.S. economy:

- **Higher short-term interest rates due to the increased public perception of financial asset risk.**
- **Higher interest rate risk premiums in the agricultural credit market, reflecting the high rate of agricultural sector loan default.**

The evaluations of impacts of the farm financial crisis were conducted under four scenarios. These scenarios are defined in Table 6. The VLRP and AAA85 programs evaluated together with the analysis in Report #3 yielded differing assumptions on the total loan loss. The extreme case on the high loss side assumes no income maintenance programs and no financial assistance programs. The scenario with the lowest loan loss is a case where income maintenance programs continue at current levels and preemptive financial assistance programs are in place.

The total losses were distributed across the years 1985-88 using the FAPRI net farm income estimates. Potential loan losses are higher under the "free market" option, due to the lower farm income available to service debt. Short term interest rates are expected to respond strongly to the large loan losses in 1987. Specifically, from Figures 1 and 2:

- The public loses confidence in the private financial sector due to loan defaults, leading to a run-up in private short-term interest rates, peaking in 1987 when the loan default rate is highest.
- Longer-term commercial bond rates rise by more moderate amounts than the private short-term rates but remain above baseline levels for a longer period of time.

The major economy-wide impacts are caused by these short term interest rate movements, - 75-125 basis points for loan losses in the "middle range" of $20-25 billion compared with 25 basis points when loan losses are reduced to $10 billion.

Results of the Wharton evaluation for the middle range of loan losses ($20 to $25 billion), relative to the baseline outlook, are illustrated by Figures 3, 4, and 5, for the federal debt, employment, and gross national product.

The major conclusions of the Wharton analysis are:

- By 1993, the federal debt will be $13.7-21.5 billion larger.
- In 1989, between 175,000 and 275,000 jobs are lost in the entire economy.
- In constant 1985 dollars, Gross National Product is reduced by $8.6-13.7 billion in 1989. The cumulative losses in real GNP over the 1985-93 period are $30-49 billion.

These impacts are compared in Table 7 with those generated by higher and lower loan loss assumptions. These suggest a trade-off between the costs of income maintenance and financial assistance programs and the consequences for the economy of ignoring one or both of these preemptive measures. It would be prudent to consider early, comprehensive measures to correct the farm financial

crisis rather than to attack it on a piece-meal or crisis-reaction basis. Clearly, loan losses at the high end of those evaluated will not occur, because countervailing actions will be taken. The question is whether these actions can be less costly if they are managed and coordinated through legislation and administrative initiatives not developed on a reactionary basis.

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Johnson, S.R., W.H. Meyers, A.W. Womack and R.W. Young, "An Analysis of the Variable Loan Repayment Option for the 1985 Farm Bill," FAPRI Staff Report #7-85, University of Missouri, Columbia and Iowa State University, July 1985.

Jolly, Robert W. and Damona Doye, "Farm Income and the Financial Condition of United States Agriculture," FAPRI Staff Report #8-85, Iowa State University, July 1985.

Shink, George R. and John M. Urbanchuk, "Economy-wide Impacts of Agricultural Sector Loan Losses," Wharton Econometric Forecasting Associates, July 1985.

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13-14

Table 1. National Agriculture Debt Distribution Estimated From Farm Journal Survey.

Debt/Asset (Percent)	% of Farms	% of National Debt	% of Agricultural Assets
00-10	39.5	2.9	36.8
10-40	29.4	34.2	37.1
40-70	17.5	36.3	18.5
70 Plus	13.6	26.6	7.7
Actual Levels	1.67 mil.	$210.8 bil.	$951.7 bil.

Source: A. Womack, et. al., "National Farm Survey on Financial Stress," FAPRI Staff Report #6-85, July 1985.

Table 2. Agricultural Debt to Asset Ratios by Region and Age Group Estimated from Farm Journal Study.

	Age					All Age
	Under 35	35-44	45-54	55-64	Over 65	Groups
Region	D/A	D/A	D/A	D/A	D/A	D/A
Central	52.1	45.4	38.0	22.5	11.0	34.3
West	31.2	29.6	22.1	25.8	16.7	25.2
South	20.8	37.1	20.8	21.0	4.0	19.7
East	51.4	26.4	21.3	10.7	8.5	20.3
Weighted National Average	35.9	37.3	26.9	22.4	7.4	26.1

Source: R.W. Jolly and D.G. Doye, "Farm Income and the Financial Condition of United States Agriculture," FAPRI Staff Report #8-85, Iowa State University, July 1985.

Table 3. Farm Income and Government Payments Under the Administration (AAA85) and Variable Loan Repayment (VLRP) Programs.

	Date	Program	1983*	1984*	1985	1986	1987	1988	1989	1990
						($ billion)				
Direct Government Payments	July 1985	VLRP	9.30	8.00	5.90	6.20	6.30	5.90	5.80	6.00
	Mar. 1985	AAA85	9.30	8.00	5.12	4.75	3.26	0.47	0	0
Net Farm Income	July 1985	VLRP	16.40	35.30	23.70	24.70	27.40	26.10	23.80	21.60
	Mar. 1985	AAA85	16.40	35.30	24.63	21.13	16.50	13.50	15.78	16.25

Sources: VLRP- "An Analysis of the Variable Loan Repayment Option for the 1985 Farm Bill," FAPRI Staff Report #7-85, University of Missouri-Columbia and Iowa State University, July 1985.

AAA85- "The Administration Proposal for the 1985 Farm Bill: An Evaluation and Analysis," FAPRI Staff Report #3-85, University of Missouri-Columbia and Iowa State University, March 1985.

*Actual USDA figures.

Table 4. Annual Interest and Principal Payment Shortfalls with Current Debt and Asset Levels, United States.

	Current Income 1/	Lower Income 2/	Improved Income 3/
Interest ($ billion)	1.12	3.22	0.26
Principal ($ billion)	3.68	5.64	1.89
Total ($ billion)	4.80	8.86	2.15
% debt not fully serviced	52.9	65.3	29.5
% debt with interest not fully paid	21.7	44.5	7.8

1/ Cash returns of 7.5 percent on capital, mean interest rate of 10 percent.
2/ Cash returns of 6.5 percent, interest rate of 12 percent.
3/ Cash returns of 8.5 percent, interest of 8 percent.

Table 5. Estimated Annual Asset Liquidation Required to Service Remaining Debt, United States.

	Current Income 1/	Lower Income 2/	Improved Income 3/
	%	%	%
Assets liquidated	9.9	16.8	6.6
Debt liquidated	34.0	48.0	25.6
Debt charged-off	3.9	8.5	2.1
Operators selling out	8.1	14.6	5.2

1/ Cash returns of 7.5 percent on capital, capital recovery rate of 85 percent.
2/ Cash returns of 6.5 percent, capital recovery rate of 65 percent.
3/ Cash returns of 8.5 percent, capital recovery rate of 100 percent.

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Table 6. Financial Impacts of Agricultural Sector Loan Losses Under Four Scenarios.

Program, Loan Loss and Interest Rate Effects	Year 1985	1986	1987	1988
Hard Landing (Free Market Income Levels)				
Large Loss ($50 billion, No Financial Assist)				
Loss Pattern (Billions $)	2	10	33	5
Short-Term Rate Increase (Basis Points)*	10	60	275	125
Medium Loss ($25 billion, With Financial Assist)				
Loss Pattern (Billions $)	2	4	16.5	2.5
Short-Term Rate Increase (Basis Points)*	10	25	125	75
Soft Landing (Current Income Levels)				
Medium Loss ($20 billion, No Financial Assist)				
Loss Pattern (Billions $)	2	4	12	2
Short-Term Rate Increase (Basis Points)*	10	20	75	40
Small Loss ($10 billion, With Financial Assist)				
Loss Pattern (Billion $)	2	2	5	1
Short-Term Rate Increase (Basis Points)*	10	10	25	10

*This is the increase for the private short-term (6 month commercial paper) rate. Government sector interest rates were unchanged between the default scenarios and the baselines.

Table 7. Key Macroeconomic Impacts of Agricultural Sector Loan Losses.

	Loan Loss Scenario			
	Free Market Income		Current Income	
	No Assist	Assist	No Assist	Assist
Economic Variable	$50 billion	$25 billion	$20 billion	$10 billion
Federal Debt Increase (Billion $, 1993)	$42.2	$21.5	$13.7	$5.1
Real GNP Decrease (Billion 1985$, 1985-93)	-$96.7	-$49.0	-$30.9	-$12.2
Employment Decrease (Thousands, 1989)	-560.	-275.	-175.	-64.

Figure 1
Middle Range of Short-Term Interest Rate Impacts

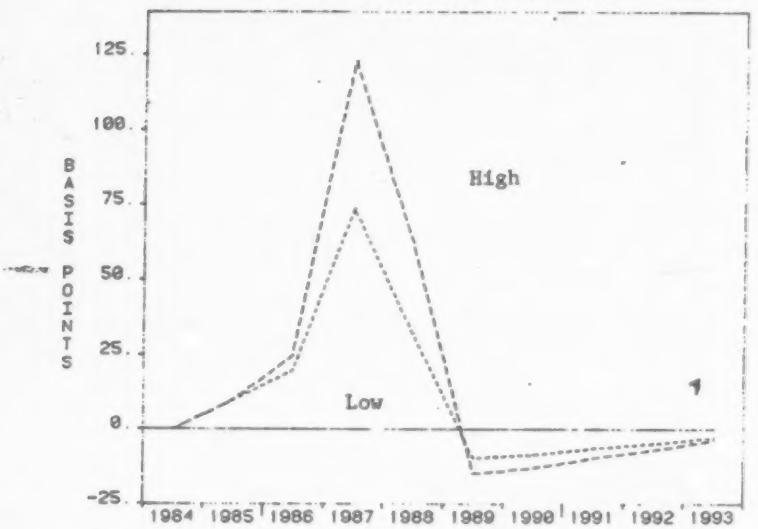
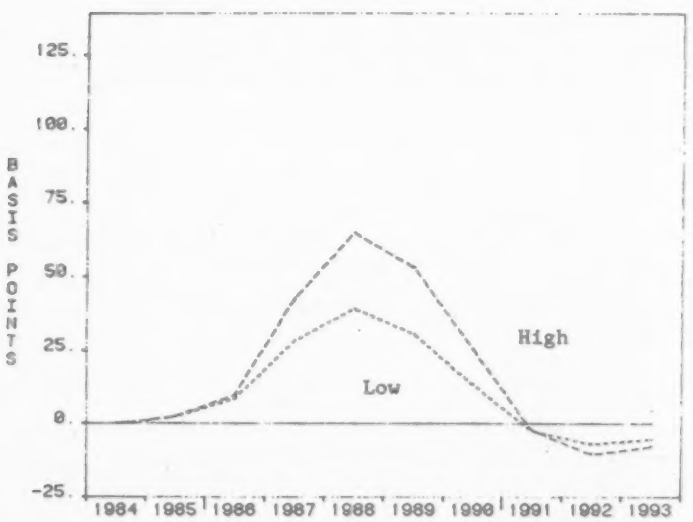


Figure 2
Middle Range of Long-Term Interest Rate Impacts



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F'gure 3

Middle Range of Cumulated Federal Debt Impacts

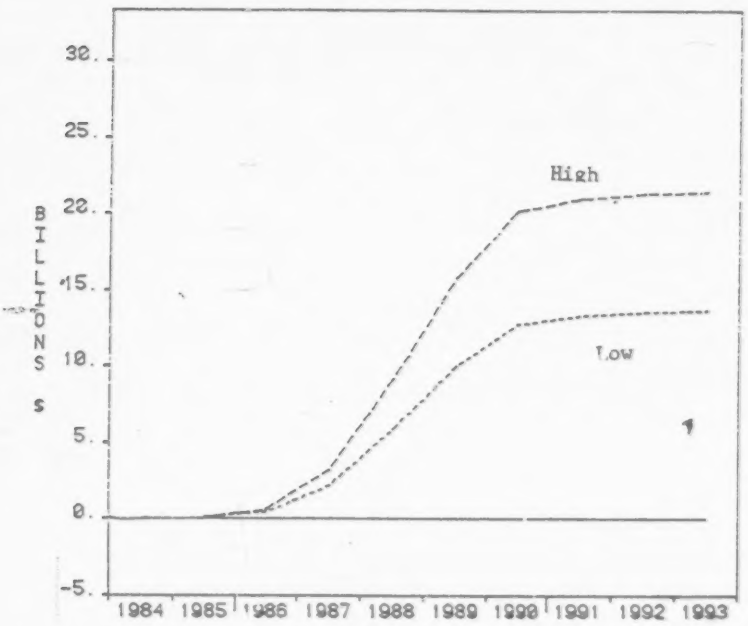


Figure 4

Middle Range of U.S. Employment Impacts

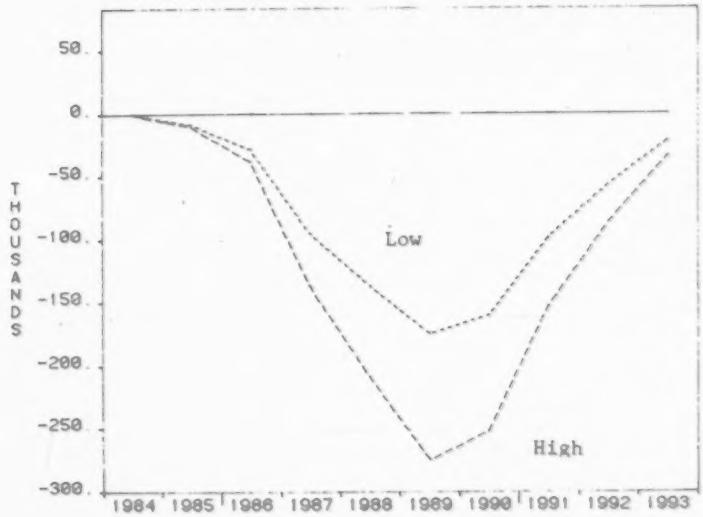
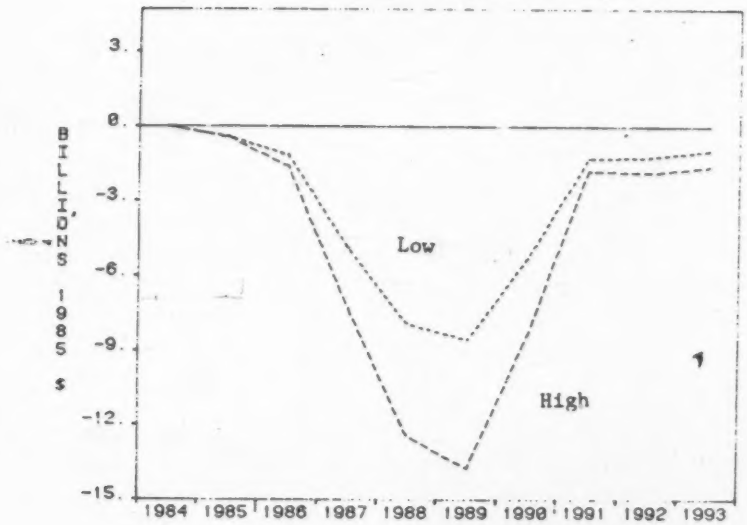


Figure 5

Middle Range of Real GNP Impacts



Senator GORTON. Mr. Bailey, I want to thank both you and Mr. Dodd, each of whom, of course, went somewhat beyond this bill but did so in a very interesting and philosophical fashion and probably placed what we're doing here in this committee in this bill in the context of what both of you point out quite accurately are much wider, much deeper, and much more serious problems. For exactly that reason, I think you have each been a real help to us in attempting to come to an answer on a relatively small but nonetheless significant part of the problem.

So, I'd like to thank both of you for sharing your vast experience and your wisdom with us here today. Thank you very much.

The committee is adjourned.

[Whereupon, at 11:45 a.m., the hearing was adjourned.]

[Additional material received for the record follows:]

KEEFE KBW BANKREVIEW

BANKING INDUSTRY STUDY

Vol. #30

December 24, 1984

AG BANKS REAP GRIM HARVEST

Farm Crisis Clouds 1985 Outlook For Many Banks

Stung by third quarter loan losses and sizable provisions, several Midwestern banks have confirmed some of our worst fears about bank lending to the "ag" sector. Evidently, our concerns are shared by the Comptroller of the Currency, who recently cited agriculture as a key problem area in 1985 for banks with related exposure. Here is a list of some of the more dramatic problems stemming from farm-related loans:

... Charging-off $7.7 million in ag-related credits, Hawkeye Bancorporation (DesMoines, $1.9 billion in assets) announced a $.25 per share loss for the quarter. The bank's planned acquisition of United Central Bancshares has been cancelled due to ag problems in both banks.

... United Central Bancshares ($1 billion in assets, also based in DesMoines) reported an 80% earnings drop from Q3'83, mostly attributable to a 100% year to year increase in the loan loss provision. The bank has charged-off 2.02% (annualized) of average loans in the past 9 months. The fourth quarter dividend was eliminated.

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- After incurring a $10.8 million loan loss provision and $3.8 million in charge-offs, Chartercorp ($2.7 billion, in Kansas City) scratched out a meager $.03 per share profit in the third quarter.

- Compounding the 3rd quarter losses in its mortgage subsidiary, Norwest Corp. ($20.5 billion in assets, headquartered in Minneapolis) took a $87 million loan loss provision and $54 million in charge-offs, "primarily in agriculturally related businesses."

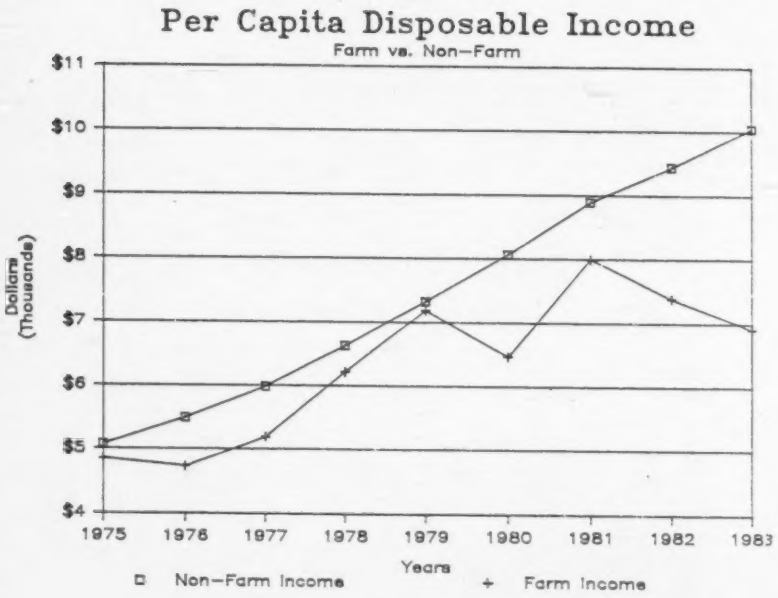
- First Bank System ($21 billion in assets, also based in Minneapolis) added $10 million to its third quarter loan loss provision from the second quarter, reinforcing its loan loss reserve due to "continuing caution about asset quality and, in particular, agriculture-related loans."

Just how bad is the farm economy? What is the potential continuing impact of the farm crisis on bank earnings? In this bank review we will try to unearth the roots of the farm problem, first reviewing the macroeconomic factors that have conspired to produce four consecutive dismal years for American farmers. Paying particular attention to the role of burgeoning farm debt in increasing the incidence of insolvency among farmers, we will then attempt to develop a framework for estimating the implications for banking industry earnings. Our conclusions, unfortunately, are not reassuring.

The Farm Crisis

A few general statistics may serve to underscore the gravity of the current farm crisis. Net income for farmers in each of the past four years has been below its 1979 peak in both real and nominal terms. Weak farm prices for most products contributed to declines in gross income in 1980, 1981 and 1982. Growth in corn and wheat prices in 1983, induced by Payment in Kind (PIK) and poor weather, failed to augment aggregate income because of slack yields, rising production costs, and declining asset values. On a per capita income basis, farmers have lost considerable ground to non-farm workers. Roughly at parity in 1079, per capita income of farmers by 1983 measured only 69% of average non-farm per capita income. Not surprisingly given this background, the rate of attrition from the farm in 1983 was three to five times the average rate for the 1970's. But raw numbers tell only a small part of the story.

CHART I



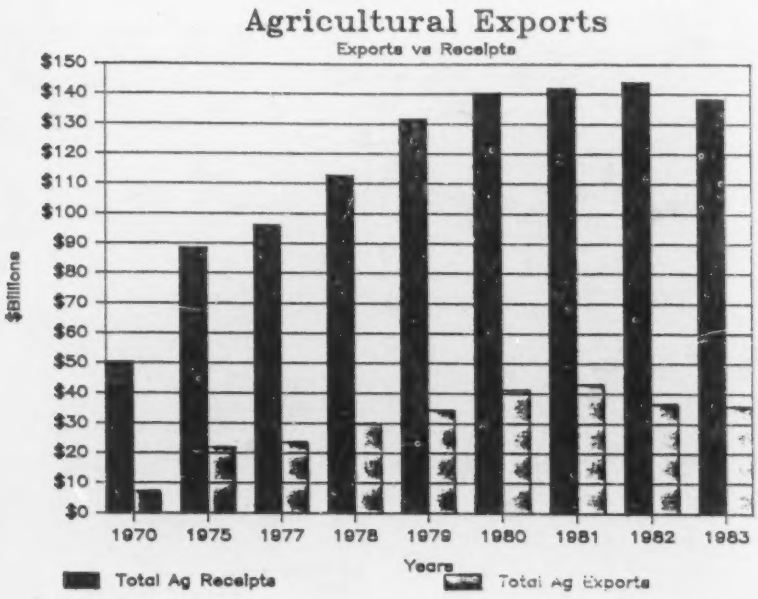
For example, it should be emphasized that, in referring to the "ag" sector, we are not referring to a homogenous bloc of producers. Dairy farming in Duluth differs as markedly from lettuce growing in Salinas as steel fabricating differs from biotechnology. On the brighter side, large agribusinesses, taking advantage of economies of scale and modern management practices, are faring best of all. Those farmers whose principal product is livestock --- hogs, steer, poultry --- are generally, if not uniformly, in a reasonably stable condition both because feedstocks in most years have been a bargain and because livestock prices have been less volatile than grains. Dairy farmers have recently enjoyed some strong years, but now face the daunting prospect of dairy price support rollbacks. Even the good news about ag must be qualified.

Unfortunately, prosperous farmers are few. While this article focuses on the problems facing Midwestern grain and oilseed farmers, the farm crisis is by no means confined to the Midwest. Grape and many specialty crop

farmers in California are severely distressed, and cotton farmers are also taking their lumps. Land values in the South are withering along with farm incomes. Large producers of specialty crops (tobacco, cotton and peanuts), as well as soybeans, corn and wheat, many southern operators are only part-time farmers and have been marginally profitable for years.

The current crisis follows a decade of prosperity interrupted only by two lean years in 1976-77. Riding a wave of unprecedented growth in exports, which were stimulated in turn by a weak dollar and robust foreign economies, U. S. farmers enjoyed aggregate (nominal) income growth of 40% in 1978 and 17% in 1979. The value of farm exports jumped from $7.3 billion in 1970 to $43.3 billion in 1981 --- from 14.4% of total receipts to 30.6%. This export boom was particularly pronounced for crops as distinct from livestock. Measuring 31% of total receipts in 1970, crop exports by 1981 had soared to 54% of the total.

CHART II



Ironically, but typically for American agriculture, these good years nurtured the seeds of the approaching collapse. Lofty commodities prices prompted farmers to expand acreage. Rising farm incomes pushed up expected returns on farm assets, driving up land values, enhancing the farmer's wealth and --- portentously --- augmenting his borrowing capacity. Assuming that continued double digit inflation would mitigate the cost of debt and indefinitely add to the value of fixed assets, many farmers borrowed liberally to finance equipment purchases, capital improvements, and additional land. Net borrowing grew from 14% of total cash flow in 1970 to 50% in 1979; farmers were becoming dependent on credit just to meet everyday needs. (Refer to chart on page 6). Caught up in the general euphoria, creditors --- many rural banks, the Farmers Home Administration (FmHA), and the Farm Credit System --- were eager to lend against the increasing value of farm property, blind to the inability of debtors to service interest payments with cash flow.

As long as farm prices remained at historically high levels and inflation continued to both increase fixed asset values and assuage the pain of high debt loads, the most aggressive farmers seemed the most astute. But the hiatus of farm prosperity ended abruptly after 1980. Worldwide recession attenuated the robust export growth of the late '70's, a trend which was not offset by a comparable increase in domestic consumption. Suddenly, overproduction emerged as agriculture's paramount problem; too many resources --- credit, land, labor --- had been attracted into farming. Pinched between contracting commodities prices and rising input prices, farmers have been confronted with a dwindling return on investment and a corollary erosion of asset values. Most importantly, real interest rates initially remained high, and then, insidiously, began to creep up as overall inflation abated. The ostensibly astute owners who had "bet the farm" on constantly rising inflation, and the creditors who had funded them, began to seem dissolute.

This farm depression, then, differs from previous postwar downturns in two important respects. The first is the ag industry's --- indeed the entire economy's --- increased reliance on foreign trade, a factor which is largely exogenous to the ag industry. Given the high estimated income elasticities of demand for U.S. farmers' exports, continued worldwide recession is arguably the crucial factor affecting the health of the ag sector. In addition, the strong dollar is a salient factor in suppressing export demand. Even as a depressed dollar stimulated exports in the late '70's, the currently overpriced dollar has made U.S. exports --- conspicuously farm products --- prohibitively expensive for some foreign buyers. While the domestic prices of U.S. crops have slid since 1981, the cost to prospective foreign customers has climbed. Encouragingly, the dollar has softened in recent weeks --- bad news for consumers but good news for farmers. But it will require more than a transitory dip in the dollar's price to allow American farmers the opportunity to recapture the markets they have lost since 1980.

CHART III

Farm Sector Cash Flow

($Billions)

Financial Indicators	1983	1982	1981	1980	1979	1978	1977	e	1975	1970
Cash Sources of Income:										
Crops	$74.1	$66.3	$71.3	$72.3	$64.1	$53.9	$48.6	e	$45.8	$21.0
Livestock	69.2	70.1	69.2	67.8	68.6	59.2	47.6	e	43.1	29.5
Other (a)	10.8	5.5	3.8	2.8	2.9	4.3	3.0	e	1.8	4.3
Total Cash Sources	$154.1	$141.9	$144.3	$142.9	$135.6	$117.4	$99.2	e	$90.7	$54.8
Cash Uses/Operating Expenses:										
Interest	$20.4	$21.3	$19.1	$15.6	$12.5	$9.8	$8.1	e	$6.1	$3.0
All Other	89.1	92.1	92.3	90.0	84.7	71.2	63.9	e	55.6	33.5
Total Cash Uses/Operating Expenses	$109.5	$113.4	$111.4	$105.6	$97.2	$81.0	$72.0	e	$61.7	$36.5
Operating Cash Flow	$44.6	$28.5	$32.9	$37.3	$38.4	$36.4	$27.2	e	$29.0	$18.3
Changes in Loans Outstanding:										
Real Estate	2.1	3.7	9.3	9.4	13.0	7.6	7.6	e	4.6	1.1
Non-Real Estate	0.8	3.1	6.2	5.9	10.9	8.3	6.8	e	4.6	1.2
CCC	-4.6	7.4	3.0	-0.1	-0.6	1.1	N.A.	e	N.A.	N.A.
Total Changes in Loans Outstanding	-1.7	14.2	18.5	15.2	23.3	17.0	14.4	e	9.2	2.3
Capital Expenditures	13.1	13.6	16.8	18.0	19.9	17.9	15.0	e	12.4	6.8
Net Rent to Landlords and Other	4.5	5.8	5.9	5.7	5.6	4.6	3.9	e	4.7	2.4
Net Cash Flow	34.4	34.9	40.5	40.2	47.4	40.1	30.7	e	30.5	16.2
Interest Payments as % of Operating Cash Flow Before Interest Payments	31.3%	42.8%	36.7%	29.5%	24.6%	27.0%	22.9%	e	17.4%	14.1%
Net Borrowing as % of Total Net Cash Flow	-4.9%	40.7%	45.7%	37.8%	49.2%	42.3%	46.7%	e	30.2%	14.1%

(a) Prisarily government payments.
NA = Not Available

Source: "Economic Indicators of the Farm Sector"; 1983.

Prices Received by Farmers

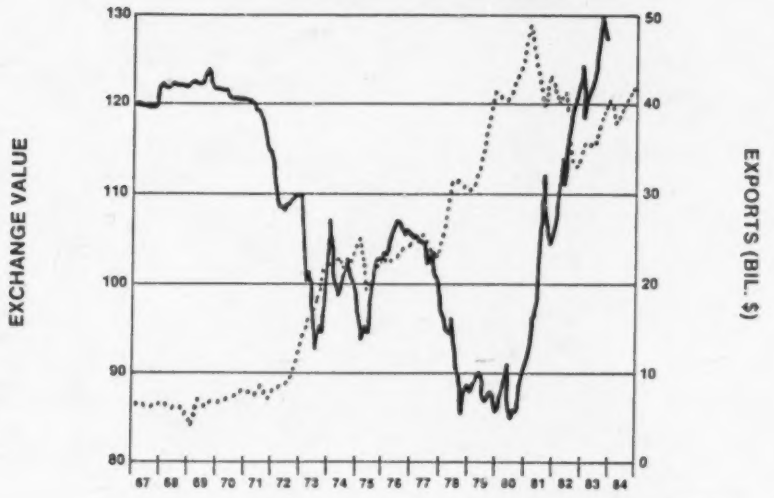
	1984		1983					
	Sept.	April	Sept.		1984a	1983	1982	1981
Farm Prices: Crops								
All Wheat ($ Bushel)	$3.42	$3.63	$3.65	e	$3.48	$3.59	$3.52	$3.68
Corn	3.00	3.32	3.32	e	3.24	2.99	2.37	2.92
Soybeans	6.03	7.82	8.28	e	7.24	6.73	5.78	6.92
Cotton (cents/lb.)	67.00	68.10	63.10	e	68.90	63.20	55.50	67.10
Oranges ($/Box)	11.95	4.44	1.50	e	9.56	3.68	7.47	3.77
Farm Prices: Livestock								
Beef Cattle ($ Cwt.)	$55.00	$60.10	$52.30	e	$57.58	$55.83	$56.97	$58.51
Hogs	46.60	47.50	44.10	e	48.78	47.02	52.78	43.81
All Milk	13.40	13.10	13.50	e	13.05	13.57	13.59	13.76

a = average prices April - September

Source: "Agricultural Outlook"; USDA Publication; Oct., 1984.

CHART IV

EXCHANGE VALUE OF THE DOLLAR VERSUS U.S. AGRICULTURAL EXPORTS

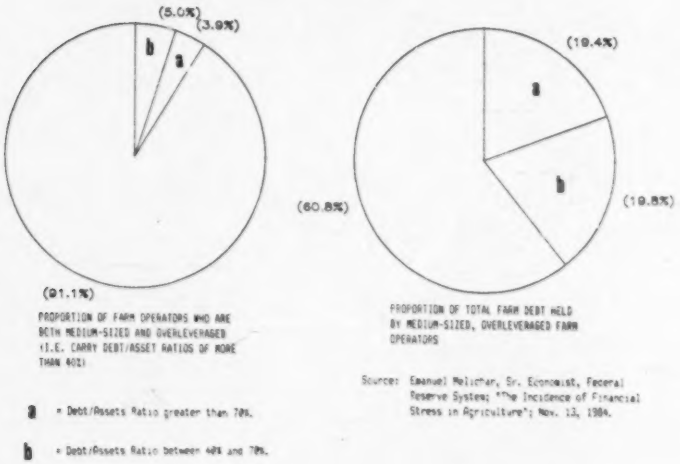


Source: Edward Schuh; Presentation to Financial Analysts for First Bank Systems, Inc.

The second distinguishing characteristic of the current farm recession, touched on earlier, is the absolute level of farm debt, and, in particular, its concentration among a relatively small proportion of very heavily leveraged farmers. Farm debt as a percent of total assets in 1982 stood at 20.5%, its highest level since the Great Depression. Aggregate interest payments in 1983 soaked up over 37% of farm cash flow, compared to 14% in 1970. Moreover, debt is allocated unevenly among the farm population. A significant proportion of farm operators carry no debt whatsoever and an estimated 60 percent of farm operators have a debt/assets ratio of 0-10%, with a 40% ratio considered a harbinger of financial difficulty. Even among the farm operators who are heavily leveraged, a large share derives much of its income from off-farm sources. Fully 46% of farm operators in 1978 cited a pursuit other than farming as their primary occupation. For these farmers, and for many large farmers who boast a generous return on total assets, high debt loads may not lead inexorably to ruin.

CHART V

Concentration of Farm Debt Among Over-Leveraged Farm Operators


(5.0%)
(3.9%)
b
a
(91.1%)
PROPORTION OF FARM OPERATORS WHO ARE BOTH MEDIUM-SIZED AND OVERLEVERAGED (I.E. CARRY DEBT/ASSET RATIOS OF MORE THAN 40%)
a = Debt/Assets Ratio greater than 70%.
b = Debt/Assets Ratio between 40% and 70%.
(19.4%)
a
b
(60.8%)
(19.8%)
PROPORTION OF TOTAL FARM DEBT HELD BY MEDIUM-SIZED, OVERLEVERAGED FARM OPERATORS
Source: Emanuel Melichar, Sr. Economist, Federal Reserve System; "The Incidence of Financial Stress in Agriculture"; Nov. 13, 1984.

However, as Emanuel Melichar (Senior Economist, Federal Reserve) has estimated, 33% of medium sized farms, representing 8.9% of total farms, are leveraged more highly than the critical 40% threshold. Of these, 44% carried ratios of 70% or higher. A minor proportion of total farm operators, these farmers owe roughly 40% of total farm debt. Already heavily indebted at the onset of the recession, many have been unable to meet debt service requirements for several years. Consequently, lenders have been capitalizing interest and rolling over their loans season after season, as crop receipts proved insufficient to fully repay principle or interest. As their debt burden mounts, chances for survival diminish.

Most U.S. farmers who are poised on the financial precipice, then, share three broad characteristics:

(1) They are farmers whose primary income source is an export-sensitive product such as grain or soybeans, or as in California, luxury items for which demand is especially income-sensitive.

(2) Their farms are of an intermediate size --- too small to generate economies of scale but too large to afford the farmer the flexiblity to seek a supplementary source of income.

(3) Crucially, they borrowed heavily in the late 1970's to expand operations.

In addition, numerous farmers, mostly in Missouri, Kansas, and southern Iowa have been victimized by bad weather for several years running.

Farm Lenders: The Recent Record

Thus far, the credit experience of farm lenders has deteriorated markedly from the 1970's, but does not seem to point to imminent collapse. As the lender of last resort to farmers, the Farmers Home Administration has, by all accounts, turned in the worst credit record of all farm lenders. To qualify for an FmHA loan, a farmer must demonstrate his inability to qualify for credit from private sources. Moreover, as a direct federal agency, the FmHA is not strictly comparable to banks and PCA's. (One of the larger private sources of farm credit, Production Credit Associations are essentially borrower cooperatives. Every farmer who borrows from a PCA must invest a portion of his loan in PCA stock.) The FmHA often lends under the authority of numerous high-risk drought relief and low income programs. For instance, it had lent generously, often to marginal operators, under the Agricultural Credit Act of 1978. A monument to fiscal lag, this act authorized $4 billion and ultimately spent more like $6 billion in loans to remedy a spurious crisis that had already passed. One remarkably shortsighted provision of this program was an offer of subsidized rates to beginning farmers --- encouraging entry into the field.

In the current crisis, however, the FmHA has, until lately, been conspicuous in its absence. Last summer the Reagan administration did approve a program which authorized the FmHA to guarantee the loans of banks if they, in turn, consent to charge-down these loans and forgive some of the interest and principal. Basically a token gesture, this program is likely to be one model for a plethora of stopgap relief proposals in 1985. In any event, we feel that, given the Reagan administration's budget constraints and dogma of non-interference in free markets, relief programs are likely to be on a much smaller scale than farm interests would advocate. This suggests that banks and PCA's can't count on FmHA intercession to take them out of problem credits, and that although the FmHA's rate of loss may remain high, its share of total losses may not expand.

CHART VI

Breakdown of Farm Debt Outstanding by Lender

FARM DEBT (Billions)	1984*	1983	1982	1981	1980	1979	1978	1977	1975	1970
Total Farm Debt	$215	$217	$202	$182	$165	$140	$122	$104	$83	$53
Real Estate	112	110	106	96	85	71	63	55	45	29
Federal Land Banks	48	47	44	36	30	25	21	18	13	7
Life Insurance	13	13	13	13	12	10	9	7	6	6
Banks	9	8	8	9	9	9	8	7	6	4
FmHA	9	9	9	8	7	4	4	4	3	2
Indiv. and Other	32	32	32	30	28	24	21	19	16	11
Non-Real Estate	103	107	96	86	80	69	59	49	37	24
Banks	39	36	33	31	31	28	26	23	18	10
PCA's	19	20	21	20	19	15	14	13	10	5
FmHA	15	15	14	12	9	6	3	2	1	1
CCC	11	15	8	5	5	6	5	1	0	3
Indiv. and Other	20	20	20	18	17	14	12	10	8	5
Debt/Asset Ratio		20.6%	18.6%	16.7%	16.5%	16.1%	16.7%	15.6%	16.2%	16.8%

* Preliminary

Source: "Economic Indicators of the Farm Sector"; 1983.

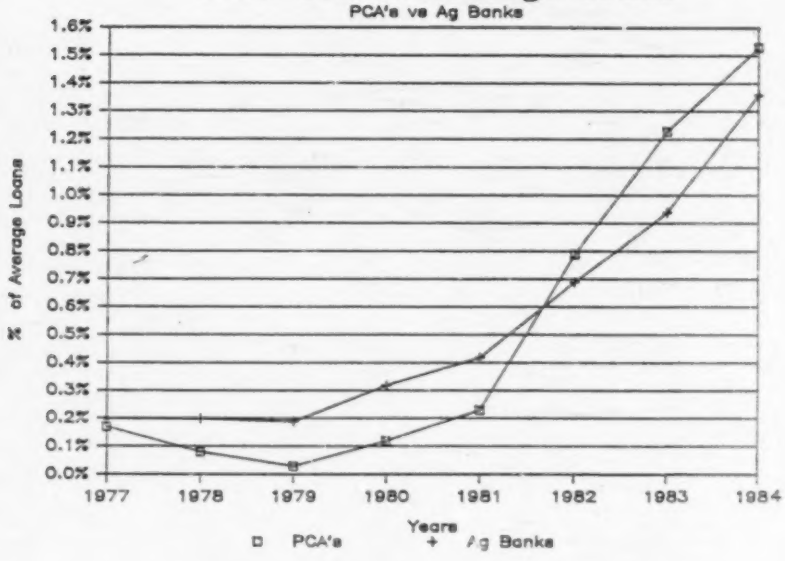
In the 1970's the loan loss records of PCA's were, overall, superior to those of banks. However, in the past two years, PCA loan losses have soared from .05%-.15% of loans typical of the 1970's (including the 1976-77 recession) to .81% in 1982. In fact, 1982 charge-offs were equal to total charge-offs for the years 1970-80. Losses in 1983 were higher still, roughly $240 million, and are expected to rise to the $300 million range in 1984. Moreover, the portfolios of each PCA consist entirely of ag loans. So, despite arrangements by which troubled PCA's may borrow capital from healthier ones within the same district, cash flow problems and insolvencies may be more of a problem for PCA's than for banks. Further, a PCA failure can be a double whammy for the ag economy since it simultaneously eliminates a source of credit and wipes out a major chunk of a farmer's investments.

For farm banks, evidence of financial stress is widespread. Ag loan charge-offs as a percent of ag loans in 1983 measured four times the average rate for the decade of the 1970's. Largely for this reason, ROE for farm banks dipped from 14% in 1982 to 11% in 1983. In the first half of 1984, the rate of net charge-off indicates further deterioration of asset quality. From .94% of ag credits in 1983, the rate of charge-off has risen to 1.36% (annualized). However, conditions in several states have worsened more than in others. In particular, California has had abysmal loan loss experience, charging-off in excess of 3% (annualized) of ag loans in the first six months of 1984 and skewing national averages. Nearly all midwestern states are also writing off loans at a faster pace — in many instances two times faster - than in 1983. Nor did the rate of loan charge-off in 1983 significantly reduce

CHART VII

Loan Losses/Average Loans

PCA's vs Ag Banks



Note: 1977-83 data are based on total loan charge-offs for banks under $500 mm in assets with greater than 25% ag loans. This is not strictly comparable with 6 month, 1984 data, which relates to ag losses at all banks as a % of farm loans.

1984 Charge-off Ratio for PCA's is an estimate. For banks, the ratio is annualized 6 month charge-offs.

the level of past due loans. Nationally, the rate of past due loans to total loans at ag banks stood at 5.5% at 6/30/84 versus 4.7% at 6/30/83. This rate rose in nearly all midwestern states. Furthermore, this summer 60% of ag banks in the seventh federal reserve district reported slower loan payments than a year earlier. So if current trends continue, it seems certain that credit conditions and earnings at ag banks will deteriorate before they improve.

The financial condition of the ag banks themselves is similarly on the decline. As has been widely publicized, 19 of the 52 U.S. banks that had failed as of early September 1984 had significant ag exposure. More meaningfully from the standpoint of dynamic analysis, the number of banks nationwide at

which delinquent loans exceeded total capital increased 14.5% between 6/30/83 and 6/30/84, from 538 to 616. In Kansas, the increase was 16 (114%), Iowa 25 (357%), Missouri 24 (160%), Nebraska 15 (107%). While these banks are typically quite small --- between $10 million and $50 million in assets --- and may not represent a large share of total banking assets in any midwestern state, the rate of increase in their number is alarming.

Future Farm Losses: Near Term Improvement Unlikely

Several obstacles impede our effort to estimate the aggregate and individual exposure of large banks to ag credits, including the reluctance of managements to divulge detailed breakdowns of problem loans by industry, coupled with their endemic optimism. Accordingly, we are reduced to making some rather broad assumptions concerning the likely range of industry and individual bank loan losses and the impact on bank earnings. The following analysis details the method we have used to try to quantify the farm problem as well as some of the complications qualifying our final results.

Drawing on Emanuel Melichar's estimates of farm leverage, we have concluded that payment on from 7-19% of total farm debt is in immediate danger of default. We have excluded from our calculations the debt of both large farmers, whose profitability may permit debt service despite high leverage, and that of the very small farmer, who generally has an alternate source of income. Another 20% of farm debt might be termed "threatened"; default is likely within, say, 2-3 years if conditions do not improve. We then assume, based on historical information, that the loss experience for ag banks will be equivalent to the PCAs and superior to the FmHA. Given total bank exposure of roughly $45 billion on 12/30/83, we anticipate potential near term ag-related losses of between $2 and $7 billion (optimistically) and $12 billion (worst case); roughly 5-15% of bank ag loans (optimistically). Furthermore, our calculations proceed to assume a 50% rate of recovery on all farm charge-offs. While this may prove a conservative estimate if most bank loans are secured by crops, it may not be unrealistic since land values are so depressed and recoveries, if they materialize, often lag charge-offs by years. So our total banking industry exposure in terms of net charge-offs drops to 2.5-7.5% of loans.

We avoid making the logical leap that our derived rate of loan loss will apply to all banks industry-wide. Such an assumption would be patently unjustified. One need only look at the impressive loan loss record of Texas Commerce Bancshares in the recent oil shakeout to appreciate the extent to which credit standards governing loans to the same industry can vary from bank to bank. Each bank must be evaluated on its own merits, based on knowledge of management and its past record of conservatism in addressing

loan problems. Still, few banks we have spoken to have disputed the 2.5-7.5% near term rate of charge-offs as a reasonable working assumption.

The principal complication in our analysis is that provisions and charge-offs will in many instances be dictated by decisions of examiners and external auditors. It is difficult to anticipate the stringency of their standards, particularly those of state examiners. While recent examinations of many non-ag banks have evidently been tough, both the controller and the FDIC recognize the contradictions inherent in forcing a farm loan into foreclosure. Simply stated, there are few bidders for farm property, even at current depressed prices. So, for a bank, taking possession of farm property is often tantamount to entry into the farm management business. That is certainly not the examiner's objective. On the other hand, allowing a bank to roll over the debt may mean that the farmer simply slides into a more highly leveraged position, intensifying the bank's exposure.

What regulators and auditors conceivably could do in a most pessmistic scenario is force a bank to charge troubled loans down to collateral value. In Iowa, where land values have already plummetted 20-30% from their 1981 peaks and, by consensus, could easily drop another 20%, such a policy could prove self-defeating. Illustrating the ongoing erosion of asset values, a Chicago Federal Reserve survey asserted as recently as Oct 3 that 67% of Iowa banks reported that land values were trending down, 31% reported that they were stable, and 2% said that the trend was up. Given this environment, the impact of a policy mandating write-downs on lenders could be severe and could easily force many ag banks (defined as banks at which ag loans constitute more than 25% of total loans) into technical insolvency. To the extent bank loans are for production purposes (as most banks maintain theirs are), crops (or Commodity Credit Corporation payments) should provide reasonable protection. However, bank loans to farmers that are: (1) secured by equipment; (2) secured by a second mortgage in farm property; or (3) unsecured, might well be total losses. The crucial point is that bank examiners, like bankers and farmers (and bank analysts), are groping for tools with which to identify, quantify and remedy the farm problem. We suspect that federal regulators will be fairly tolerant of all but the most hopeless farm credits, allowing banks to nurse along the many marginal borrowers. This argues in favor of the more optimistic short term outlook for recognized bank charge-offs than is implied by a 2.5-7.5% rate of charge-off.

In assessing the ag exposure of holding companies on the Keefe BankScan, we have run a screen of bank holding companies based on the category "loans to farmers" on the aggregated call reports of subsidiary banks within a Bank Holding Company as of 12/31/83. These loans should be considered at best a proxy for a bank's total ag exposure, and as such may be of greater utility in making comparisons between banks than in measuring a bank's absolute ag exposure. For one thing it can be reasonably assumed that ag portfolios have not grown as rapidly for most banks as the overall portfolio. Consequently, current exposures may be less than that on 12/31/83. On the other hand, the farm economy comprises not just farmers, but farm equipment

dealers, seed suppliers, contractors, and commercial feedlot operations, to name but a few of the firms reliant on farm incomes. All of these businesses have credit needs, and all could suffer in a continued slack farm economy. A recent survey conducted by the Kansas City Fed estimated that 13% of such businesses were experiencing "severe financial stress". Larger banks, with ostensibly little exposure to farmers, may be involved with these technically C&I credits.

Another of our concerns centers on the ag exposure of larger regional banks to smaller correspondents either through direct lending or overlines. A significant share of ag exposure, especially in unit banking states, is not farm loans per se, but loans to ag bank management secured by the bank's stock. Such loans and sometimes ag overlines are not necessarily classified as "loans to farmers" in call reports. Both Indiana and Kentucky are heavily agricultural states, yet the major banks in both of these states exhibit low exposure to the ag sector. While these, along with the other banks we contacted, assure us that their concentration in both ag overlines and bank stock loans are minimal, the chance remains that other large regional banks, especially in unit banking states, could find these loans to be a thorny problem.

CHART VIII

Farm Loan Exposure of BankScan Banks

BankScan with Ag Loan Exposures
Exceeding 3% of Banking Loans

MIDWEST Bank	State	% Ag Loans
Norwest Corporation	Minn	10.3%
First Bank Syste	Minn	7.6
Fourth Financial Corp.	Kans	6.9
Cosserce Bancshares, Inc.	Mo	6.0
Mercantile Bancorporation	Mo	5.7
United Missouri Bancshares	Mo	5.4
Marshall & Illsley Corp.	Wisc	3.9
Toledo Trustcorp	Ohio	3.5
Centerre Bancorp.	Mo	3.1
SOUTH		
Branch Corporation	N.C.	6.8
Deposit Guaranty Corp.	Miss	3.9
First Alabasa Bancshares	Ala	3.4
Dominion Bankshares Corp.	Va	3.2

WEST Bank	State	% Ag Loans
• Moore Financial Group	Idaho	11.8%
• IntraWest Financial Corp.	Colo	11.5
• OMB Corporation	Wash	9.4
• Peoples Bancorporation	Wash	7.4
• Valley National Corp.	Az	6.6
• Ranier Bancorp	Wash	6.0
• Affiliated Bankshares of Colo.	Colo	5.8
• First Security Corp.	Utah	5.5
• Colorado National Bankshares	Colo	4.6
• BankAmerica Corporation	Cal	4.4
• Affiliated Bank Corp. of Wy.	Wy	4.3
• Wells Fargo & Company	Cal	4.0
• Crocker National Corp.	Cal	3.9
• United Banks of Colo.	Colo	3.7
• US Bancorp	Ore	3.5
• Texas American Bancshares	Tex	3.5
• First Interstate Bancorp.	Cal	3.0

NOTE: Loans of Non-Bank Subsidiaries are Not Included in the Base Number for Calculating Percent Exposure.

Ag Exposure: Investment Implications

The ag outlook dictates a skeptical attitude towards banks with heavy farm loan exposure. Fortunately, the number of large banks meeting this description are few and even for most of these banks ag problems can likely be absorbed with only a moderate negative impact on earnings streams.

The following section briefly reviews the ag exposures of banks on our BankScan, concentrating on the West and the Midwest, the two most troubled regions.

The Midwest

- In Minnesota, First Bank System and Norwest Bancorporation rank high on our list of institutions with a major proportion of ag loans. Their market exposure extends over several troubled states, including Nebraska and, in Norwest's case, Iowa. Both banks in 1984 have charged off farm loans at a fairly rapid clip, and our 1985 estimate reflects our expectation of continued weakness in their ag portfolio.

- Missouri banks are also worrisome. Like their Iowa counterparts, farmers in Missouri have suffered from the worst of both worlds: weak incomes and bad weather. Commerce Bancshares and Mercantile Bancorp., with extensive affiliate banking networks throughout the state, are the most heavily exposed on a direct basis of the four Missouri banks we follow closely. Typically conservative in reviewing its portfolio, Commerce in 1984 has been aggressively charging-off ag loans. Since year end 1983, CBSH has written-off nearly 5.3% of its ag portfolio (annualized, our estimate) through 9 months, and management does not seem optimistic about a fourth quarter decline in that rate. Evidently, ag problems have been less serious at Mercantile Bancorp., although the bank's overall 1984 rate of charge-off has been high --- 50-60 basis points --- which presumably includes some ag related write-offs. For both of these banks, ag losses seem to be concentrated in a few hard-hit affiliates. Both Boatmen's Bancshares and Centerre Bancorp. have less exposure on a direct basis.

- No Kentucky, Illinois or Indiana banks, and only one Ohio bank (Toledo Trustcorp) appeared on our screen. The economies of these states are more highly diversified than those of the plains. Also, in Illinois and Indiana restrictive banking laws seem to have circumscribed direct lending to agriculture.

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The West

- Some Oklahoma and Colorado banks represent sources of concern. Big corn, wheat, and sorghum producers, these two states appear at least a little better off than Iowa, but are still plagued with problems. Significantly, Colorado National Bankshares recently announced a sharp increase in its fourth quarter loan loss provision due to ag loan problems. While First Oklahoma Corp. is the only large Oklahoma bank with significant direct farm loan exposure, the other Oklahoma banks, and the Colorado banks as well, may have done substantial amounts of lending against bank stocks.

- It is much more difficult both to generalize about agriculture in California and to predict the consequences of ag problems on the California banks than for midwestern banks. Given the diversity of the California ag industry, it could be entirely possible, albeit unlikely, that a given bank could experience a far lower loss rate on ag loans than its competitors. Any banks that lent heavily against land values to the expanding grape (particularly for raisins) or specialty crop (almonds e.g.) growers may find themselves facing disproportionately heavy losses. Not only were these crops subject to the same financial dynamics which impelled midwestern farmers to borrow and expand, the underlying problem was aggravated as these crops became popular targets of tax shelter schemes. Other crops have fared poorly as well. California and Arizona cotton growers, unlike their counterparts in the Southeast, export a very large share of their crop --- up to 80% in the early 1980's. Export demand is now curtailed and prices have dropped, squeezing the farmers. On the other hand orange growers and grape growers for quality wines are by and large faring well. So, although aggregate farm losses in California may well be at least as severe as in the Midwest, the incidence of loss is likely to vary widely between banks. Some of BankAmerica's current earnings weakness can be attributed to ag problems. But to the extent that banks --- notably Security Pacific --- have already begun to provide heavily for ag problems, next year's outlook should improve.

- Interestingly, the Pacific Northwest is the region claiming the most large banks possessing significant concentrations of ag loans. ONB Corp., Peoples Bancorp, Rainier Bancorp, and Moore Financial Group are all heavy farm lenders. A particularly big wheat growing region, the Northwest is suffering from the same problems as are Great Plains wheat producers. Luckily, these problems have been mitigated by the region's status as the principal U.S. source of "White" wheat, which in 1983 proved to be the most profitable of the five wheat classes (Hard Red Winter, Soft Red Winter, Hard Red Spring, White, and Durum). However, the apple industry in Washington may be hurt by over-plantings in the late 70's. Since a decision to invest in apple orchards takes much longer to come to fruition than, say, a decision to expand grain acreage, anticipating demand and supply trends can be an especially vexing problem for apple farmers. So, in addition to continuing difficulties among grain farmers, we would not be surprised if a shakeout in apples did not result in losses for banks in the Pacific Northwest.

The Ag Outlook: Storm Clouds Linger

Thankfully, the farm outlook for 1985 and beyond is not entirely bleak. First, both long-term and short-term interest rates have fallen in recent months, which, in turn, has imparted weakness to the dollar. As emphasized earlier, a weaker dollar and stronger overseas economies are the two most important preconditions of agricultural revival. While dollar exports remain well below their 1981 peak, they rose 11% in October-July 1984 from the same period a year earlier. Moreover, a disasterous 1984 harvest in the USSR (by some estimates down 18% from last year) could push U.S. grain exports to that country to unprecedented levels in 1984-85, perhaps as much as twice 1983/84 levels. Under the terms of the 1983 U.S. --- Soviet long-term grain agreement, the USSR is committed to buying 8-9 million tons of grain in 1984-85 and, as pointed out in the October 1984 issue of "Agricultural Outlook," the U.S., in its role as essentially a residual supplier of world grain, is in a strong position to pick up a large share of the Soviet Union's incremental grain needs. It is possible that the ag situation could turn around quickly if exports revive. Investors should be alert to indicators that such a reversal is taking place; banks with ag exposure --- especially the more conservative banks --- could then become attractive investments.

On the domestic front as well, some signs are positive. Interest rates have declined, relieving some of the farmer's debt service burden. Furthermore, declining oil prices may presage improvement in farmer's terms of trade. Finally, there remains the faint hope that scheduled omnibus legislation in 1985 could begin to strike a proper balance between short-term relief and recognition of the long-term need to radically alter the current farm regulatory system. In particular, we would advocate gradual substitution of the current system of domestic price supports with a more trade oriented policy geared toward maintaining export price stability. Moreover, legislators must acknowledge that marginal operators should be allowed --- even encouraged --- to leave the industry, continuing a migration from the farm that is nearly a century old. The challenge, of course, is to accomplish this end with a minimum of economic and social dislocation.

Unfortunately, our measured optimism must be weighed against current realities. A bumper harvest for most crops in 1984-85 is expected to build carryovers from 1983 levels. This may continue to depress farm prices. Farmers remain heavily leveraged, real interest rates remain high, farm incomes are low and exports are depressed. The Reagan administration's avowed objective to cut spending reduces the likelihood of large scale farm relief. Growth in foreign economies has thus far been glacial. Also, China is now a net exporter of grain and India is approaching self-sufficiency. Moreover, IMF-imposed austerity programs have transformed Latin American nations --- perniciously --- into net exporters of capital; in the 70's, they were among the fastest growing segments of our export markets. Our farmers and consumers everywhere suffer from rigid trade restrictions imposed by the EEC and countries like Japan; the most efficient producer is essentially precluded from selling in some of the world's larger markets. And our own slide toward protectionism through steel and automobile quotas is particularly deplorable. So for the near term, at least, the outlook is for more turmoil in the farm sector and a guarded earnings outlook for banks with large ag exposures.

Commentary and analysis
in this report is by:

Charles N. Cranmer

KEEFE KBW BANKREVIEW

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THE REDIRECTION OF POWER IN AMERICAN BANKING

The following article was written by Michael C. Connor, Senior Vice President, Keefe, Bruyette & Woods, Inc. and published in the winter 1985 edition of Mergers & Acquisition magazine.

WITH BANK REGULATORS GETTING FUSSIER OVER CAPITAL POSITIONS, BANKS THAT CAN GENERATE THE MOST EQUITY CAPITAL WILL ACCOMPLISH THE BIGGEST ACQUISITIONS DURING THE NEXT FIVE YEARS. SMALLER REGIONAL INSTITUTIONS MAY BE IN BETTER POSITIONS TO GROW BY MERGER THAN THE LARGEST AND BEST-KNOWN MONEY-CENTER BANKS.

KEEFE, BRUYETTE & WOODS, INC.
Specialists in Bank Securities
Member of the New York Stock Exchange, and Other Regional Exchanges

After four consecutive years during which the financial-services sector has led all other industries in M&A transactions, a salient and surprising factor has emerged: The most important determinants of competitive power in the financial-services industry are the amount of leverageable capital that a bank can generate and its capacity to increase that type of capital. Leverageable capital will continue to determine, to a large degree, how well a bank can weather the rapid changes and consolidations within its industry by issuing equity in various forms to accomplish mergers and acquisitions.

This factor creates a strong prospect that relatively small institutions may execute some of the largest and most significant banking-industry transactions of the future and manage the steepest climbs up the ladder of size.

Mergers and acquisitions already are primary vehicles for the fast-paced consolidation and diversification process promoted by deregulation and other governmental policy initiatives. Tempted initially by opportunities within their home states, and later by limited access to other states, banks have been the busiest acquirers among all American industries in recent years, according to the M&A Data Base. In 1984 there were 222 bank acquisitions, compared with 209 in 1983, 245 in 1982, and 180 in 1981.

Even without the head start of the early 1980's, mergers and acquisitions represent a logical route toward rationalization and consolidation in the financial-services field. This is what makes the strength in equity capital so important. A fact often overlooked amid the rapid pace of recent bank M&A activity is that bank regulators who approve acquisitions have recently begun seriously to weigh equity capital considerations before okaying deals. They have standards, to be discussed later in more detail, that must be met.

Studies at Keefe, Bruyette & Woods have produced some startling facts concerning equity capital generation. Many of the banks with the most potent ability to generate equity capital are not the biggest, the best known, or the most active acquirers of today, but rather the smaller, lesser-known regional institutions. With many smaller banks enjoying this advantage, it is quite possible that by 1990, several of the dozen or so most important banking organizations in the nation will be the companies that are at present still in their formative stages, while several of the current top 10 institutions may be relegated to lower positions.

As money-center banks and regional institutions jockey for position, no single factor will be more crucial to success than the capacity to issue equity capital. Moreover, equity capital prowess may be one of the few consistent elements available to guide acquirers and regulators during the period of uncertainty that is ahead. Two developments in Washington during January 1985 underscored the sensitivity of bank consolidation to disruptions and changes in course.

First, the U.S. Supreme Court agreed to hear a constitutional challenge to state laws allowing interstate banking mergers on a regional basis. The laws in question provide for reciprocity within specified geographical regions. Thus, a state such as Massachusetts allows banks in other New England states to acquire banks within the Bay State, provided the other states grant comparable privileges to Massachusetts institutions. But banks outside the specified regions are not allowed to invade the New England territory. Regional reciprocal laws have been passed by nine states, mostly in New England and the Southeast. (These are detailed in the sidebar.)

The high court, which is expected to deliver a decision around the middle of 1985, will consider assertions by Citicorp and Northeast Bancorp of New Haven, Conn., that the provisions excluding banks outside a particular region are unconstitutional. The court's acceptance of the case has delayed completion of several interstate deals (see Table I).

STATES THAT ALLOW INTERSTATE BANK ACQUISITIONS

State laws in Alaska and Maine allow acquisitions by banks from any other state on a nonreciprocal basis. New York state law allows acquisitions by banks from any other state on a reciprocal basis.

States that allow acquisitions by banks from specified states on a reciprocal basis are listed below (reciprocating states are listed in parentheses).

Connecticut (Maine, Mass., N.H., R.I., Vt.)
Florida (Ala., Ark., D.C., Ga., La., Md., Miss., N.C., S.C., Tenn., Va., W. Va.)
Georgia (Ala., Fla., Ky., La., Miss., N.C., S.C., Tenn., W. Va.)
*Kentucky (Ill., Ind., Mo., Ohio, Tenn., Va., W. Va.)
Massachusetts (Conn., Me., N.H., R.I., Vt.)
North Carolina (Ala., Ark., D.C., Fla., Ga., Ky., La., Md., Miss., S.C., Tenn., Va., W.Va.)
*Rhode Island (Conn., Me., Mass., N.H., Vt.)
South Carolina (Ala., Ark., D.C.. Fla., Ga., Ky., La., Md., Miss., N.C., Tenn., Va., W.Va.)
Utah (Alaska, Ariz., Colo., Hawaii, Idaho, Mont., Nev., N.M., Ore., Wash., Wyo.)

*State laws contain provisions that eventually can allow acquisitions by banks from any other state.

UNCERTAINTIES IN REGULATION

In the second major development, C. Todd Conover, an avowed advocate of banking deregulation, announced he would resign as Comptroller of the Currency in the spring of 1985. Conover said he had pushed deregulation about as far as it could go under existing legislation and that further action by Congress was needed to usher the movement into new stages.

Thus, as 1985 began, despite the trend toward deregulation and consolidation, there were still uncertainties on all three federal regulatory fronts --- judicial,

Table I: Interstate Bank Acquisition Transactions - 1981-84

Acquirer (Home State)	Assets a) (Billions)	Target (Home State)	Assets a) (Billions)	Date Announced	Price a) (Millions)
BankAmerica (Calif.)	$ 122.5	Seafirst (Wash.)	$ 9.6	4/26/83	$400
*Bank of Boston (Mass.)	18.3	Casco-Northern (Me.)	0.664	3/11/83	55
*Bank of Boston (Mass.)	18.3	Colonial Bancorp (Conn.)	1.3	10/ 3/83	100
*Bank of Boston (Mass.)	18.7	RIHT Corp. (R.I.)	2.0	11/18/83	120
*Bank of New England (Mass.)	5.8	Maine National (Me.)	0.604	2/13/84	75
*Bank of New York (N.Y.)	12.7	Northeast Bancorp (Conn.)	1.4	8/14/83	200
*CBT Corp. (Conn.)	5.1	Bank of New England (Mass.)	5.1	6/14/83	570@
#Chemical New York (N.Y.)	44.9	Florida National (Fla.)	2.6	11/ 4/81	374
#First Bank System (Minn.)	13.5	Banks of Iowa (Iowa)	1.4	12/10/81	157
*Hartford National (Conn.)	4.1	Arltru Bancorp (Mass.)	0.737	9/ 1/83	50
Key Banks (N.Y.)	2.8	Depositors/Canal (Me.)	0.306	8/19/82	78
*Key Banks (N.Y.)	7.2	Alaska Pacific (Alaska)	0.462	10/25/84	58
NCNB Corp. (N.C.)	7.2	First Nat'l.-Lake City (Fla.)	0.024	6/15/81	5
NCNB Corp. (N.C.)	7.7	Gulfstream (Fla.)	0.665	3/18/82	91
NCNB Corp. (N.C.)	7.7	Exchange Bancorp (Fla.)	1.2	6/ 1/81	134
NCNB Corp. (N.C.)	11.6	Ellis Banking (Fla.)	1.5	8/16/83	175
Norstar Bancorp (N.Y.)	2.6	Northeast Bankshare (Me.)	0.507	9/22/82	51
*Norstar Bancorp (N.Y.)	5.4	Bank of Maine (Me.)	0.105	2/ 9/84	13
*Sun Banks (Fla.)	9.2	Trust Co.-Georgia (Ga.)	4.9	7/ 2/84	1427@
*Zions Utah (Utah)	2.3	Nevada State Bank (Nev.)	0.185	5/22/84	36

*Transaction pending at press time. #Awaiting changes in state laws to be completed. Agreements run 15 years.
a)At announcement date. @"Merger of equals"--price reflects market capitalization of newly formed company.

legislative, and administrative --- as well as questions on the status of future state legislative initiatives.

Despite these uncertainties, considerable change already has been achieved through M&A in the banking industry --- and the potential barely has been tapped. One reflection of this change has been the shift in the relative competitive positions among individual institutions during the last dozen years or so because of M&A transactions. A particularly telling illustration involves the evolution of two important regional banking concerns, Harris of Chicago and Texas Commerce in Houston. In 1970, when both operated in unit banking states that precluded acquisitions of other banks, Harris, by a significant margin, was the taller, stronger, and fairer. Of material interest are the environmental similarities that prevailed at that time:

- ... Both were in states without branch banking;
- ... Both were in states without multibank systems;
- ... Both states had about 1200 banks; the only critical difference in banking structure was the presence in Illinois of two major money-center banks -- - First National Bank of Chicago and Continental Illinois National Bank and Trust Company;
- ... Both Harris and Texas Commerce dealt almost exclusively with blue-chip corporate customers; and
- ... Both were highly regarded banks in the view of virtually every constituency that did business with them --- borrowers, investors, depositors, and regulators.

TEXAS vs. ILLINOIS

In 1971 Texas banks were permitted to begin multibank operations within the borders of that state. This touched off several persistent acquisition programs on the part of the largest banks based in Dallas and Houston. Texas Commerce in the intervening years acquired or founded 65 additional banking subsidiaries in Texas alone. Its consolidated assets at the end of 1984 were $19.5 billion, including $8 billion in subsidiaries apart from the main unit in Houston. Texas Commerce was not the only Texas bank to grow by acquisition in the last decade, but it has emerged as the role model for dynamic yet stable performance.

Illinois, on the other hand, continued to prohibit branching or multibank operations until 1981, thereby restricting its banks primarily to internally generated growth. By the time Illinois did liberalize its banking laws its largest banks had suffered weakened capital positions and their market prices slipped below book value. This made it virtually impossible to achieve meaningful growth via the acquisition route. The upshot of this legislative procrastination is that banks that are not money-center banks, principally Harris, Northern Trust, and Heller's American National subsidiary, lost their competitive muscle. Their products, being corporate in orientation, have been unsheltered by legislation and regulations, and their relative standing in their blue-chip customer niche has become increasingly defined by capital strength (and related pricing competition) more than by any other yardstick.

By the end of 1983, the relevant profiles of Harris and Texas Commerce had changed dramatically, as shown in Table II.

TABLE II:

PROFILES OF HARRIS OF CHICAGO AND TEXAS COMMERCE -- 1970 VS. 1983

	Harris of Chicago		Texas Commerce	
	1970	1983	1970	1983
Assets ($mm)	2029	7425	1407	19,499
Loans	940	3871	642	11,664
Equity	187	398	95	1,019
Earnings	18	31	11	177
Market Value	171	275*	115	1,324

*Prior to Harris' sale to Bank of Montreal.

FASTER TRANSFORMATION EXPECTED

It was not surprising, therefore, that in October 1983 Harris agreed to sell out to Bank of Montreal in a $547 million cash transaction that was completed in the third quarter of 1984. During this same period Chicago-based Walter E. Heller Inc. liquidated itself, in the process selling its $3.2 billion-asset American National Bank subsidiary to First Chicago Corp. Both of these transactions, which were among the largest in banking history, in effect were admissions by the selling/liquidating parties that their competitive positions had been undercut by two factors: the overwhelming size of the global institutions vying for corporate business in their market; and the legislative lethargy in Illinois that prevented them from achieving through acquisition the size necessary to stay in business as independent companies producing acceptable shareholder returns.

But, as noted earlier, developments to date only have scratched the surface. The dozen or so years needed to flip-flop the Harris--Texas Commerce relationship may well be slashed to two-to-five years in future situations, and much larger institutions may be engulfed in the shifts. It is not at all inconceivable that at least half the banks that five years ago would have been considered among the nation's 10 most powerful (as well as largest) will not be on anyone's comparable list by 1990. A number of trends have contributed to this prospective acceleration.

Even if all the genius in the world were concentrated in one institution, it could not materially alter the competitive balance in the banking industry if geographic barriers against interstate banking were not coming down and falling more rapidly than anyone could have foreseen as recently as 1980. Thus far, 12 states have passed interstate-banking laws of various kinds; similar legislation was approved by both houses in Michigan during 1984 only to be vetoed by the governor. Twenty states (including Michigan) and the District of Columbia were scheduled to consider interstate-banking bills in 1985. The opening of new states offers enormous potential for bankers who have the vision and the financial wherewithal to reach for the brass ring.

CAPITAL CONSIDERATIONS ARE VITAL

The reason is simple enough. Banking is among the last of the major industries in the U.S. to be allowed to consolidate. This has resulted in an anomaly. While the industry contains many large institutions as measured by assets, even the biggest are quite small when measured by market capitalization, which we already have identified as a key element in a bank's ability to acquire. The disparity is especially acute when the market value of bank equity is stacked against nonfinancial corporations. For example, at the end of 1984, Citicorp had a market value of $5.1 billion, or only one-fifteenth the market capitalization of International Business Machines. And while only 16 banks had market capitalizations exceeding $1 billion at the close of 1984, five industrial companies had enough capital to buy back shares worth $1 billion or more during the year. They were: Exxon Co., $2 billion; Teledyne and Standard Oil of Indiana, $1.7 billion each; Texaco Inc., $1.3 billion; and Atlantic Richfield Co., $1.2 billion.

It is the ability to participate in the coming consolidation in the banking industry, rather than the absolute size of any particular company at the start of the process, that really matters. The ability to participate can be defined primarily as the ability to issue equity (or equity equivalents) during the acquisition-consolidation process at acceptable cost. In the banking industry as in perhaps no other, capital defines the limits of growth, for the simple reason that the banking regulators --- the Federal Reserve, the comptroller of the currency, and the Federal Deposit Insurance Corp. --- are placing increasing emphasis on the capital account in the acquisition approval process. Consequently, when markets explode, as they are about to in banking with the breakdown of state barriers to expansion, competitive shifts exemplified by the Texas Commerce--Harris changeover can occur rapidly.

An example of how swiftly strength can be obtained is provided by the proposed merger of Trust Co. of Georgia and Sun Banks Inc. of Florida to form an interstate banking organization known as SunTrust Banks Inc. The deal was approved by the Federal Reserve in January 1985. On the basis of 1984 results, the combined bank would have about $15.5 billion in assets, well down the list of major banks. But pro forma market capitalization would be about $1.5 billion, or the ninth largest amount of equity capital in the U.S. banking industry. That is for just one deal involving only two states.

If the combined bank were later to merge with another major bank in the Southeastern region, market capitalization would expand even further. Let us say Wachovia in North Carolina is the next prospective candidate. Wachovia's market capitalization of about $1 billion would expand market value to $2.5 billion, the fourth-largest such figure in the banking industry --- and the result of only two deals that created an institution operating in only three states.

PLEASING THE REGULATORS

Just what are the government's capital requirements? The principal demand by regulators is that a bank have 5.5 cents in primary capital for every dollar of total assets. Primary capital includes common stock, surplus, undivided profits, and other elements. (A profile of capital-requirements definitions appears in the accompanying sidebar.) Any acquisitions that fall short of these guidelines are likely to have problems getting regulatory approval.

Besides influencing a bank's ability to make an acquisition, capital requirements figure heavily in

MINIMUM CAPITAL
REQUIREMENTS FOR BANK
HOLDING COMPANIES

The following are 1984 federal regulatory guidelines:

PRIMARY CAPITAL
5.5% of total assets

TOTAL CAPITAL
Acceptable--Above 7% of assets
Possibly Undercapitalized--6-7% of assets
Undercapitalized--Below 6% of assets

Primary Capital consists of common stock, surplus, undivided profits, perpetual preferred stock, contingency and other capital reserves, mandatory convertible instruments, minority interest in equity accounts of consolidated subsidiaries, and allowances for loan losses.

Total Capital consists of primary capital plus limited-life preferred stock and subordinated notes and debentures that qualify by having a weighted average life of seven or more years and don't exceed 50% of primary capital.

deal pricing and structure. During the past three years larger bank deals often have been quite complicated, involving as many as four different forms of consideration and just as many forms of election. Acquirers have been performing a balancing act between minimal acceptable regulatory capital levels on the one hand and maximum acceptable shareholder dilution on the other.

A major reason is that the bank M&A market has become increasingly competitive as antitrust constraints have been almost totally relaxed. The elimination of the concept of potential competition as a bar to bank mergers has opened the door for larger acquisitions. In 1978, Old Kent Financial of Grand Rapids agreed to acquire Peoples Banking Corp., a $700 million company headquartered in Bay City, on the other side of Michigan, in a $50 million transaction which, incredibly enough, at the time would have been the largest merger of two regionals in terms of purchase price. There were no market overlaps, but the Federal Reserve, in a unanimous vote, turned down the merger because of "potential competition." This doctrine was subsequently invalidated in various decisions by appeals courts.

By contrast, more recent intrastate acquisitions involving markets of much closer proximity have dwarfed the size of the proposed Michigan deal. They include Virginia National Bankshares Inc. and First & Merchants Corp. in Virginia to form Sovran Financial ($598 million), Chase Manhattan Corp. and Lincoln First Banks in New York State ($308 million), and Mellon National Corp. and Girard Co. in Pennsylvania ($220 million), all in 1983, and National City Corp. and BancOhio Corp. ($323 million) in 1984.

The 5.5 percent primary-capital requirement is only the first consideration in a bank's ability to compete in this market that has been loosened by the antitrust relaxation and other manifestations of deregulation. As the deals get bigger, the buyer has to be able to issue more equity in order to get regulatory approval. In fact, the regulatory attitude toward goodwill in purchase transactions has become increasingly testy. So the ability to utilize the pooling-of-interest approach, which has no accounting goodwill, is a critical element in a successful long-term acquisition program.

Here is where some of the banks now regarded as smaller players in the game may, in the long run, have distinct advantages. The ratio of market value to book value varies markedly among the leading banks. It is as low as 53 percent at Chase Manhattan and 57 percent at Manufacturers Hanover. But at the top end of the range is Trust Co. of Georgia with an awesome 204 percent. Other banks at the end of 1984 that enjoyed ratios exceeding 100 percent were Texas Commerce, NCNB, PNC Financial, Wachovia, Barnett, Banc One, Allied Bankshares, Sovran, Sun Banks, CoreStates Financial, First Union, Citizens & Southern of Georgia, and Norstar. Therein lies the tale. It's an old story but true that the buyer with the multiple gets the deal.

The real issue isn't whether Citibank gets to march into Georgia by overcoming regional reciprocity. The fact is that the largest and strongest regionals in the South and Midwest — Sun, Texas Commerce, PNC Financial, National City Corp. of Cleveland, and NCNB, to name a few — are already virtually immune from takeover by the money-centers, most of whom simply lack the currency with which to make the deal. The real issue in interstate banking is the length of time it will take the most aggressive of the

regionals to supplant several of the money-centers as the principal lenders to corporate America, using core as well as money-market sources of funds to compete with the commerical-paper market. That is what this game is now all about.

HOSTILE DEALS SHOULD BE RARE

Because the regulators will not permit the banking equivalent of the Chevron-Gulf merger, there will be no all-cash deals of great size and no divestitures solely to cure financial defects. Thus equity issuance is essential. Mixtures of common, convertible preferred, debt, and cash have become commonplace as banks have striven to pay up in a competitive environment without incurring shareholder wrath through excessive dilution.

However, as many acquirers are now finding out on the eve of interstate banking, it doesn't take too many such deals to reach the limits of leverage and goodwill. Consequently, price aggression has been, or will be, tempered as the deals get larger. This is leading to lower premiums, particularly for the second-tier banks, those in the $2 billion to $5 billion asset category. They are not big enough to play in the majors, but are too big to be cashed out at two times book. This capital pressure already has forced many banks to attempt so-called nonpremium mergers of equals in order to achieve the mass necessary to be a factor in a changing market. Like it or not, regional banks are being forced to make accommodations in the executive suite in order to get the right deal done at a price that won't make the shareholders walk.

In banking, the regulators won't let big deals ($250 million and over) get done without substantial equity issuance as part of the deal. In other words, the would-be hostile acquirers of the banking industry won't be able to use solely other people's money to launch hostile deals.

It is axiomatic, therefore, that there will be precious few hostile deals in the banking industry, and particularly not by money-centers toward large, healthy regionals. Further, there will be very few hostile offers for large banks by individuals. This is because the tax laws make the holding-company form of ownership essential, and the equity-capitalization requirements of holding companies are generally sufficient to frustrate such attempts. One exception: Any bank that stumbles will be fair game for bear hugs. It must be remembered that there are at least 200 banks of sufficient size to warrant institutional shareholder interest. Consequently, when a bank suffers a major earnings reversal, shareholders have a great many alternative investment vehicles within the industry, thereby often creating vacuums in stock price levels. If the earnings reversal is not perceived to be long-term in nature, the likelihood of a "friendly" premium offer will be extremely high.

Regardless of how the Supreme Court rules on the issue of regional reciprocity, consolidation will continue to respond to the market forces unleashed by financial deregulation. It isn't surprising that the banks with the highest multiples will do the most deals. But it is fascinating to observe how rapidly the gap between large and small, between money-center and regional, will continue to be narrowed.

Commentary and analysis
in this report is by:

Michael C. Connor
Senior Vice President

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Profit Performance of Major Bank Holding Companies--1984

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Banking-industry profitability should no longer be considered one-dimensional. The homogeneity once generally characteristic of profit performance at banking companies dissipated further in 1984. The overwhelming majority of Keefe, Bruyette's universe of approximately 175 bank holding companies enjoyed relatively strong, double-digit, profit gains last year, reflecting a vigorous second year of economic growth. Many of the nation's 25 largest banking companies however, labored under more difficult circumstances, showing an appreciably slower rate of profit increase in 1984 than in the prior two years. As a result, the dollar amount of net income for these 25 bank holding companies ("BHCs") registered an average 5% rise last year, versus 13% each for 1983 and 1982.

KEEFE, BRUYETTE & WOODS, INC.
Specialists in Bank Securities
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Essentially, there were three areas most adversely affecting the bottom line at the 25 largest BHCs. First, most multinational banks experienced additional earnings penalties associated with their exposures to troubled Latin debtor nations. This kind of penalty arose in a number of ways: higher non-accrual loans, further increases in the special reserves mandated by regulators, and aggressive independent efforts by the banks themselves to build up loan-loss reserves.

Second, segments of the domestic economy continue to reel from the transition to low inflation, with negative implications for certain banks lending heavily to the affected sectors. Banks with energy, agriculture or other commodity-driven exposures comprised most of those BHCs, among the 25 largest, that experienced percentage declines in dollar earnings last year.

Finally, narrow spread relationships for most of 1984 aggravated profit pressures at large banks. For the first nine months of 1984, the spread between the prime rate and the cost of Fed-funds borrowings averaged 1.58%, versus 2.44% in the final three months and an average of 1.80% for the full year. Furthermore, increased reliance on relatively more costly consumer money-market deposits contributed to margin pressures last year.

Figure 1 provides specific profit and asset-quality information for each of the 25 largest BHCs, ranging in asset size from the $150-billion-asset Citicorp in New York to NCNB Corp. in North Carolina, a company roughly one-tenth the size of Citicorp at $15-billion in assets. There were two new members among the 25 largest BHCs last year, NCNB and the $21-billion-asset MCorp based in Dallas, reflecting the growing trend toward industry consolidation within and between certain states.

Approximately seventy percent of these BHCs showed higher dollar net income in 1984 than in the prior year. The strongest percentage gains were registered by First City Bancorp, up 63% compared to depressed results in 1983; NCNB Corp., up 29%; Bank of Boston, up 21% (including a gain on sale of its headquarters building); and Bankers Trust and J.P. Morgan, up 17% each. With the exception of First City, these earnings advances followed healthy percentage gains in the prior year also.

Profit Declines Received Attention

Nevertheless, it was the banks with profit declines that seized notoriety in 1984, and there were notably more of them than in 1983. For example, the number of institutions among the top 25 registering declines in net income was 33% higher in 1984 than in the prior year. First Chicago and Norwest Corp., both based in the Midwest, suffered the largest percentage

declines in dollar earnings, at 53% and 45%, respectively. Two banks experienced actual (and material) earnings losses: Continental Illinois lost almost $1.1 billion, and Crocker National posted a loss of $324 million, ranking these losses among the largest in banking history. The following table summarizes the distribution of percentage changes for the 25 largest BHCs last year and in 1983.

Percent Change in Dollar Profits	Number of BHCs 1984	1983
15% Gain or Better	6	10
0-to-15% Gain	11	9
Decline	8	6
Total	25	25

A direct guage of underlying profitability relates the dollar level of profits to average assets (ROA) and equity (ROE), thereby providing a more relevant basis for peer comparison than simply percentage changes. Among the 25 largest BHCs, 1984 results produced an average .56% ROA and 12.2% ROE, levels approximately 10% below 1983 profitability measures.

Although declining from 1983 levels, Texas Commerce repeated its pre-eminent profitability performance among the 25 largest BHCs in the nation, with a .98% ROA and a 16.8% ROE. Finishing closely behind Texas Commerce were J.P. Morgan and NCNB Corp. with .84% and .83% ROAs, respectively, and NCNB Corp. and Bankers Trust N.Y. Corp. with 16.4% and 16.2% ROEs, respectively.

Asset Quality Declines

Despite a backdrop of strong economic growth, asset quality in 1984 generally deteriorated at the nation's largest banks. In large measure, this deterioration may be attributed to troubled foreign-debtor-nation loans, particularly exposure to Argentina, and continuing difficulties in segments of the domestic economy like energy and agriculture.

When compared with the prior year, 1984 asset-quality statistics for our 25-bank group indicate a higher level of net-charge-offs-to-average loans, and a further rise in the yearend ratio of non-performing assets to total loans,

but a much-improved valuation-reserve-to-total-loan ratio. The following table summarizes these comparisons:

	1984	1983	1982	% Changes (1)/(2)	% Changes (2)/(3)
Net Charge-offs to Average Loans	.62%	.52%	.43%	+19%	+21%
12/31 Valuation Reserve to Total Loans	1.33	1.17	1.08	+14	+ 8
12/31 Non-performing Assets to Total Loans	3.33	3.03	2.98	+10	+ 2

Figures 2, 3, and 4 accompanying this article rank the top 10 performers among the 25 largest BHCs in profitability and asset-quality categories. The following observations are drawn from a review of these 1984 rankings:

- As in 1983, the relationship between asset size and total dollar profits was fairly consistent, although not presenting a perfect correlation. For example, the 10 largest BHCs by asset size each placed among the top 10 by dollar profits, except for First Chicago Corp.; the other company ranking among the top 10 in profits was Texas Commerce, which, notably, was 21st in size. J.P. Morgan and Bankers Trust both secured higher positions in terms of dollar profits than a ranking by asset size alone would suggest; BankAmerica and, to a much lesser extent, Security Pacific and First Interstate, conversely secured lower positions.

- The return on average assets was less inconsistent with size than last year. Approximately half (versus only three in 1983) of the top 10 ROA performers — J.P. Morgan, Security Pacific, Bankers Trust N.Y. Corp., First Interstate, and Citicorp — are among the 10 largest BHCs, indicating greater stress on higher returns at certain large institutions and the growing influence of "managed asset" philosophies on overall profitability by this measure. The average ROA for the top performers in 1984 was .73% versus .75% in 1983; unlike the prior year, no BHC among the 25 largest achieved an ROA in excess of 1%, although Texas Commerce came close with a .98% ROA.

- Reflecting perhaps the lower inflationary environment, returns on average equity among the 10 best-performing BHCs were slightly lower in 1984 than in the prior year, at 15.3% versus 15.6%. As it did in the ROA measure, Texas Commerce led the nation's 25 largest

BHCs in ROE performance in both years, with 16.8% in 1984. Closely following Texas Commerce last year were NCNB Corp. and Bankers Trust, with ROEs of 16.4% and 16.2%, respectively.

On average, 1984 profitability at the 25 largest BHCs diminished compared with the prior year, and the average rate of year-over-year profit growth slowed also. The primary reason for this is abundantly clear: despite strong economic growth, asset-quality issues dominated the financial landscape, causing provisions for loan losses to rise significantly. Balance-sheet protection, in the form of higher reserves and primary-capital positions, took precedence over earnings growth as the chief goal of 1984 performance at large banks.

Outlook for 1985

Looking ahead, 1985 bank earnings at the larger institutions are generally expected to improve dramatically over the 1984 level. In part, this potential is related to the surge in earnings momentum realized in the fourth quarter of 1984. Stronger balance sheets (with implications for lower loan-loss provisions), continued emphasis on both expense control and the generation of fee income, and the probable absence of new problem areas reinforce this positive view, especially over the next few months. At this juncture, the threat of higher interest rates and possible difficulties with debt restructurings among troubled Latin nations pose the major doubts about this outlook.

More broadly, our universe of 175 regularly-followed companies is expected to produce another strong gain in earnings this year, with an estimated median gain of 13% coming on the heels of a 14% increase in 1984.

Commentary and analysis
in this report is by:

James J. McDermott, Jr.
Director of Research-Senior Vice President

Figure 1. PROFIT and ASSET QUALITY at the LARGEST BANKING COMPANIES–1984

	TOTAL ASSETS (billions)	NET INCOME DOLLAR AMOUNT (in millions)			PERCENT CHANGE		PROFITABILITY		ASSET QUALITY		
		1984	1983	1982	1984 vs. 1983	1983 vs. 1982	RETURN ON AVERAGE ASSETS	RETURN ON AVERAGE EQUITY	NET CHARGE-OFFS to AVERAGE LOANS	VALUATION RESERVE to TOTAL LOANS	NON-PERFORMING ASSETS to TOTAL LOANS + OREO
Citicorp	$150,586	$690	$860	$723	3.5%	18.9%	0.58%	15.01%	0.52%	0.89%	2.53%
BankAmerica Corp	117,680	346	390	457	-11.4%	-14.6%	0.22	6.22	1.10	1.18	4.51
CHASE MANHATTAN CORP	86,883	406	430	307	-5.5%	39.7%	0.38	10.28	0.36	1.23	3.38
Manufacturers Hanover	75,714	353	337	295	4.6%	14.3%	0.40	11.18	0.48	1.08	3.19
J.P. Morgan & Co.	64,126	538	460	394	16.9%	16.7%	0.84	15.86	0.13	1.63	2.65
Chemical New York Corp	52,236	341	306	241	11.5%	27.0%	0.56	14.32	0.31	1.22	3.34
Security Pacific Corp	46,117	291	264	234	10.1%	12.8%	0.71	15.65	0.71	1.57	3.78
First Interstate Bancorp	45,544	276	247	221	11.7%	11.8%	0.63	13.45	0.81	1.34	3.78
Bankers Trust N.Y. Corp	45,208	307	261	239	17.4%	9.3%	0.68	16.20	0.55	1.55	3.37
First Chicago Corp	39,846	86	184	137	-52.9%	34.2%	0.14	3.38	1.74	1.14	2.96
Mellon Bank Corp	30,603	159	184	134	-13.8%	36.8%	0.54	10.35	0.34	1.54	2.79
Continental Illinois Corp	30,414	-1088	108	78	N.M.	39.1%	NEG	NEG	2.77	1.51	4.18
Wells Fargo & Company	28,184	169	155	139	9.3%	11.7%	0.57	12.88	0.62	1.14	3.58
First Bank System	22,438	131	130	115	1.0%	13.1%	0.58	12.02	0.69	1.30	3.24
Crocker National Corp	22,322	-324	-10	72	N.M.	N.M.	NEG	NEG	2.82	1.90	8.23
Bank of Boston Corp	22,079	164	136	124	20.9%	9.1%	0.77	15.20	0.61	1.66	3.24
Marine Midland Banks	22,056	90	101	87	-10.6%	16.2%	0.34	8.15	0.58	1.31	3.61
InterFirst Corp	21,617	118	-172	207	N.M.	N.M.	0.57	10.66	1.47	1.56	4.93
RepublicBank Corp	21,595	137	130	144	5.5%	-9.8%	0.66	13.13	0.61	1.34	3.30
Norwest Corp	21,346	70	125	89	-44.5%	40.5%	0.26	5.23	1.11	1.65	3.83
Texas Commerce Bancshares	20,732	183	177	170	3.6%	4.1%	0.98	16.79	0.44	1.13	2.72
NCorp	20,647	108	100	102	7.3%	-2.1%	0.77	13.83	1.04	1.27	3.18
Irving Bank Corp	18,982	98	92	81	6.1%	14.1%	0.44	11.66	0.22	1.38	2.80
First City Bancorp	17,319	81	50	120	62.8%	-58.6%	0.41	7.16	1.36	1.85	3.75
NCNB Corp	15,679	119	92	76	29.4%	21.0%	0.83	16.38	0.35	1.20	1.45
AVERAGE of FIVE MEDIAN VALUES					4.7%	13.2%	0.56%	12.17%	0.62%	1.33%	3.33%

RETURN ON AVERAGE ASSETS--Net income before extraordinary items minus non-convertible preferred dividends, as a percentage of average assets.

RETURN ON AVERAGE EQUITY--Net income before extraordinary items minus non-convertible preferred dividends, as a percentage of average common equity plus average convertible preferred equity.

NET CHARGE-OFFS to AVERAGE LOANS--Gross loan and lease charge-offs minus recoveries as a percentage of average loans and leases.

VALUATION RESERVE to TOTAL LOANS--Valuation reserve as a percentage of period-end loans and leases.

NON-PERFORMING ASSETS to TOTAL LOANS + OREO--The sum of non-accrual, renegotiated, and other real estate owned as a percentage of period-end loans, leases, and other real estate owned.

Figure 2. ASSET QUALITY MEASURES

Company	Size Ranking	Net Charge-Offs to Average Loans
J. P. Morgan & Co.	5	0.13%
Irving Bank Corp.	23	0.22
Chemical N.Y. Corp.	6	0.31
Mellon Bank Corp.	11	0.34
NCNB Corp.	25	0.35
Chase Manhattan Corp.	3	0.36
Texas Commerce Bancshares	21	0.44
Manufacturers Hanover	4	0.48
Citicorp	1	0.52
Bankers Trust N.Y. Corp.	9	0.55

Company	Size Ranking	Valuation Reserve to Total Loans
Crocker National Corp.	15	1.90%
First City Bancorp.	24	1.85
Bank of Boston Corp.	16	1.66
Norwest Corp.	20	1.65
J. P. Morgan & Co.	5	1.63
Security Pacific	7	1.57
InterFirst Corporation	18	1.56
Bankers Trust N.Y. Corp.	9	1.55
Mellon Bank Corp.	11	1.54
Continental Illinois Corp.	12	1.51

Company	Size Ranking	Non-Performing Assets to Total Loans + OREO
NCNB Corp.	25	1.45%
Citicorp	1	2.53
J. P. Morgan & Co.	5	2.65
Texas Commerce Bancshares	21	2.72
Mellon Bank Corp.	11	2.79
Irving Bank Corp.	23	2.80
First Chicago Corp.	10	2.96
MCorp	22	3.18
Manufacturers Hanover	4	3.19
Bank of Boston Corp.	16	3.24
First Bank System	14	3.24

Figure 3. PROFITABILITY BY DOLLARS

Company	Size Ranking	Dollar Amount of Net Income 1984	Percent Change 1984 vs. 1983
Citicorp	1	$ 890	3.5%
J. P. Morgan & Co.	5	538	16.9
Chase Manhattan Corp.	3	406	-5.5
Manufacturers Hanover	4	353	4.6
BankAmerica Corp.	2	346	-11.4
Chemical N.Y. Corp.	6	341	11.5
Bankers Trust N.Y. Corp.	9	307	17.4
Security Pacific Corp.	7	291	10.1
First Interstate Bancorp.	8	276	11.7
Texas Commerce Bancshares	21	183	3.6

Figure 4. PROFITABILITY RATIOS

Company	Size Ranking	Return on Average Assets
Texas Commerce Bancshares	21	0.98%
J. P. Morgan & Co.	5	0.84
NCNB Corp.	25	0.83
Bank of Boston Corp.	16	0.77
MCorp	22	0.77
Security Pacific Corp.	7	0.71
Bankers Trust N.Y. Corp.	9	0.68
RepublicBank Corp.	19	0.66
First Interstate Bancorp.	8	0.63
Citicorp	1	0.58
First Bank System	14	0.58

Company	Size Ranking	Return on Average Equity
Texas Commerce Bancshares	21	16.79%
NCNB Corp.	25	16.38
Bankers Trust N.Y. Corp.	9	16.20
J. P. Morgan & Co.	5	15.86
Security Pacific Corp.	7	15.65
Bank of Boston Corp.	16	15.20
Citicorp	1	15.01
Chemical N.Y. Corp.	6	14.32
MCorp	22	13.83
First Interstate Bancorp.	8	13.45

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KEEFE
NATIONWIDE BANK$CAN

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KEEPING SCORE: The Keefe Bank Honor Roll

Herein we present the 1985 version of the Keefe Bank Honor Roll, measuring progress for the past eleven years in earnings per share on a fully-diluted, IBST ("Income Before Securities Transactions") basis. The data are as reported historically (adjusted only for stock splits and dividends), in order to better track actual bank earnings experience for shareholders. To place emphasis on operating earnings, we have excluded any extraordinary items. Non-recurring items, on the other hand, have been included in our tables, except where they produce obvious distortions of the earnings trend -- those adjustments have been noted. Otherwise, identification of smaller non-recurring items by a uniform standard would prove too difficult.

A comment regarding the universe of banking companies represented here is appropriate. A cursory review will indicate that we have included several companies that have merged into other companies on our BankScan since 1984, or are slated to do so - either on an intrastate basis, or as a result of the newly-authorized regional interstate laws. One other, Crocker National, was merged into London-based Midland Bank and is no longer suitable for BankScan coverage.

For the sake of completeness, we have included not only all those companies canvassed last year, but also the "second-tier" regionals that have more recently been added to our broad Keefe universe of coverage, having emerged as worthy of increased attention from investors.

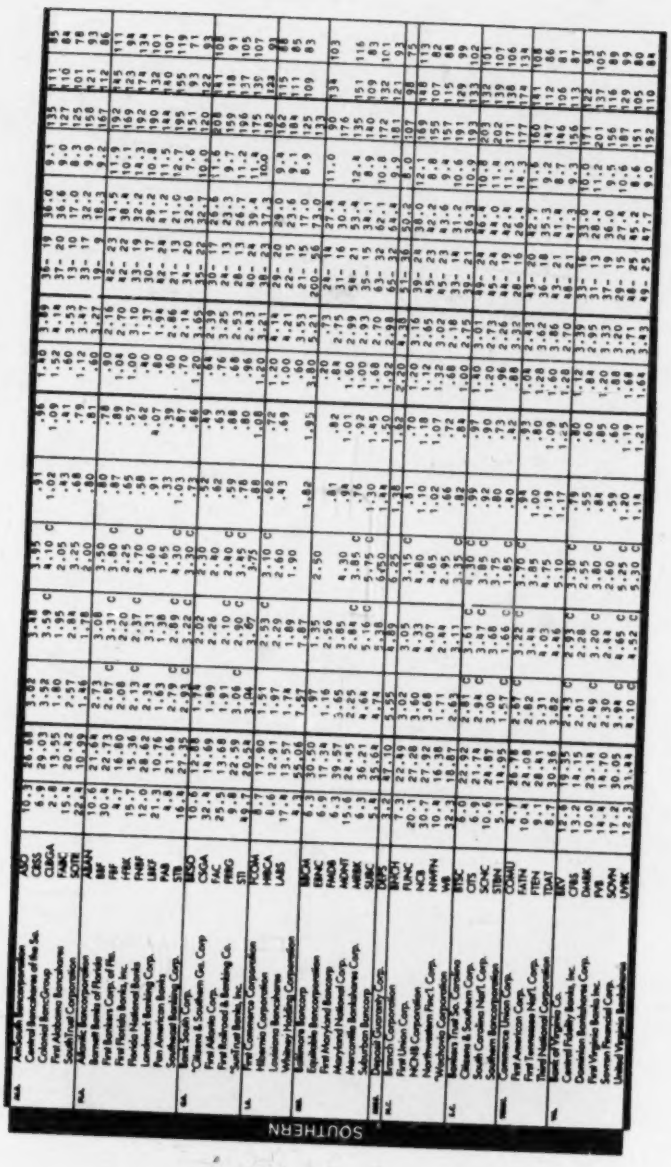
Categories similar to those for last year's Keefe Honor Roll have been presented here: the top ten compound growth rates in earnings for our entire nationwide universe of 184 banks, for both five-year and ten-year periods ending in 1984; the ten worst growth rates over the past ten years; the comparable top ten records over the past ten years in each of our four geographical regions; and the crucial "no declines" list. This last category is a more reliable representation of strong historical earnings performance than is a high compound growth rate; consistency is a requirement for qualifying whereas a high growth rate can be produced by a depressed level of earnings in the base year. We are pleased to include nine new members on the "no declines" list this year, while we lost only four from last year's roster. Of the new additions, all were components of last year's candidate universe, indicating that their most recent decline occurred in this year's base year of 1974. One of the additions to the "no declines" list is Fleet Financial, which also shows the highest ten-year growth rate among all our banks.

Similar staying power was exhibited among the top ten banks in five year growth rates, with only three changes from last year. The turnover was greater, however, among banks with the top ten 10-year records: there were only four survivors here -- even though among this year's top ten only one, The Conifer Group, is new to our universe of coverage.

KBW Bank Statistics

AREA STATE	COMPANY	SYMBOL	Shares Outstanding (millions)	Book Value	EARNINGS PER SHARE: NET INCOME 1983	1984	1985E	Latest 2 Quarters: 4th Qtr.	1st Qtr.	DIVIDEND: Current Annual Rate	Current Yield	MARKET STATISTICS: Price Range	Current Price	Price/Earnings Multiple	BKT/Book	RELATIVE P/E: VS. KBW	VS. S & P 500
	KEEFE BANK INDEX				144.44	161.77	181.99				4-6		143⅛	8.2		100	77
	S & P 500				14.03	16.73	18.00						192.72	10.7		130	100
EASTERN																	
N.Y.C.	Bank of New York Co.	BK	19.8	39.52	4.72 C	5.36 C	6.00 C	1.80	1.58	2.04	4.52	47- 26	45.1	7.5	114	91	70
	*Bankers Trust N.Y. Corp.	BT	32.6	62.80	8.40	9.52	10.75	2.44	2.78	2.70	3.79	74- 38	71.2	6.6	113	80	62
	*Chase Manhattan Corp.	CMB	36.7	93.13	10.44 C	8.65 C	10.50 C	2.46	2.81	3.80	6.27	64- 36	60.5	5.8	65	71	54
	*Chemical New York Corp.	CHL	48.1	47.67	6.02 C	6.26 C	7.00 C	1.96	1.64	2.48	5.77	45- 24	43.0	6.1	90	74	57
	*Citicorp	PNC	127.6	47.16	6.15 C	6.36 C	7.85 C	1.90	2.02	2.26	4.55	52- 27	49.5	6.3	105	77	59
	*Irving Bank Corp.	V	17.7	86.53	8.86	5.11	6.00	1.08	1.44	1.96	4.96	41- 23	39.4	6.6	85	80	62
	*Manufacturers Hanover	MHC	40.6	66.15	8.37	7.12	8.00	2.14	2.01	3.20	8.05	42- 23	39.6	5.0	60	61	47
	Marine Midland Banks	MM	19.1	53.67	4.75 C	4.09 C	5.35 C	.56	1.20	1.80	4.78	39- 20	37.5	7.0	70	85	65
	*J.P. Morgan & Co.	JPM	84.8	42.95	5.26	6.07	7.00	1.90	1.85	2.20	4.29	55- 28	51.2	7.3	119	89	68
	Republic New York Corp.	RNB	17.2	40.36	5.47	5.50	6.25	1.33	1.42	1.64	3.57	50- 32	46.0	7.4	114	90	69
	U.S. Trust Corp.	USTC	6.2	21.72	2.69 C	3.15 C	4.00 C	.67	.94	1.20	3.27	37- 25	36.6	9.2	163	112	86
CONN.	Citytrust Bancorp., Inc.	CTR	3.8	22.94	3.11	3.75	4.50	1.10	1.01	1.04	2.70	39- 22	38.4	8.6	168	105	80
	First Connecticut	FCBC	3.1	28.13	3.68	4.22	4.65	1.13	1.16	1.32	2.74	49- 32	48.2	10.4	172	127	97
	Hartford National Corp.	HNAT	14.6	22.16	3.22	3.80	4.20	1.11	.91	1.60	4.83	34- 19	33.1	7.9	149	96	74
	Northeast Bancorp., Inc.	NBIC	3.0	48.70	5.57	5.62	6.30	1.51	1.62	2.40	4.17	59- 40	57.4	9.1	129	111	85
DEL.	Wilmington Trust Company	WILM	4.2	29.98	4.01	5.11	6.00	1.44	1.31	2.00	3.70	58- 32	54.0	9.0	180	110	84
D.C.	American Security Corp.	ASEC	11.6	20.37	2.81	.41	2.00	(1.04)	.50	1.02	3.37	31- 15	30.2	15.1	149	184	141
	Riggs National	RIGS	6.0	39.88	3.90	4.49	5.15	1.09	1.22	2.00	3.60	63- 27	55.4	10.8	139	132	101
MD.	Merrill Bankshares	MERB	5.4	11.14	1.42 C	1.57 C	1.90 C	.47	.44	.76	4.05	19- 12	18.6	9.9	168	121	93
MASS.	*Bank of Boston Corporation	BKB	19.8	50.32	7.40	8.35	7.80	3.80	2.21	2.40	4.39	56- 29	54.5	7.0	91	85	65
	Bank of New England	BKNE	17.2	36.98	4.26 C	5.21 C	6.50	1.56	1.34	1.80	3.58	52- 25	50.2	7.7	136	94	72
	BayBanks, Inc.	BBNK	6.4	45.18	4.91 C	5.73 C	6.15 C	1.76	1.46	2.32	4.09	60- 38	56.6	9.2	126	112	86
	The Conifer Group	CNFG	6.2	19.51	2.62	2.78	3.00	.71	.74	1.00	3.39	30- 17	29.4	9.8	151	120	92
	Multibank Financial	MLTF	5.3	19.71	2.60	2.82	2.85	.85	.66	.64	2.21	31- 17	29.0	10.2	147	124	95
	Shawmut Corporation	SHAS	10.4	34.64	3.56	4.60	4.70	1.38	1.17	1.68	4.31	40- 23	39.0	8.3	113	101	78
	State St. Boston Corp.	STBK	8.6	33.75	4.18 C	5.15 C	5.65 C	1.39	1.45	1.20	1.88	69- 30	63.6	11.3	189	138	106
MAR.	Amoskeag Bank Shares	AMKG	4.6	24.92		1.72	2.40	.34	.64	1.00	3.81	27- 16	26.2	10.9	105	133	102
	Indian Head Banks	IHBI	2.3	25.90	3.07 C	3.53 C	4.10 C	.98	.87	1.00	3.03	34- 25	33.0	8.0	127	98	75
N.J.	Constellation Bancorp.	CSTL	3.0	25.20	3.30	3.80	4.00	1.00	.91	1.52	4.58	34- 20	33.4	8.4	133	102	79
	First Fidelity Bancorp	FFB	11.7	49.57	6.95 C	6.36 C	7.00 C	1.69	1.79	2.88	5.06	53- 31	56.7	8.1	115	99	76
	First Jersey National	FJNC	4.7	25.80	4.10 C	3.85 C	4.00 C	.92	1.02	1.80	5.31	35- 22	33.7	8.5	131	104	79
	Horizon Bancorp.	HZB	8.4	19.01	2.72	2.97 C	3.30 C	.70	.80	1.12	3.45	34- 16	32.4	9.8	171	120	92
	Midlantic Banks, Inc.	MIDL	16.0	25.48	3.45 C	4.01 C	4.35 C	1.06	1.01	1.12	2.84	41- 21	39.4	9.1	155	111	85
	New Jersey National	NJNB	5.8	19.19	2.37	2.87	3.20	.77	.74	1.12	4.05	29- 14	27.5	8.6	144	105	80
	Summit Bancorp.	SUBN	5.6	15.97	2.00 C	2.23 C	2.35 C	.61	.55	.96	4.31	23- 14	22.2	9.5	139	116	89
	United Jersey Banks	UJB	6.6	30.64	3.65	4.32	4.85	1.13	1.21	1.56	3.50	47- 26	44.8	9.2	146	112	86
N.Y.	First Empire State Corp	FEMP	2.7	53.16	1.85	6.07	7.75	1.62	1.99	1.20	1.98	61- 31	60.6	7.8	114	95	73
	Key Banks, Inc.	KEY	15.6	22.48	2.81	3.30	3.55	.91	.85	1.30	4.28	31- 17	30.3	8.6	135	105	80
	Norstar Bancorp.	NOR	17.0	33.74	4.47 C	4.70 C	5.15 C	1.17	1.14	2.40	5.12	48- 30	46.7	9.1	139	111	85
PA.	Continental Bancorp	CBPP	9.4	28.69	3.46	4.34	4.70	1.10	1.19	2.04	5.13	42- 27	39.6	8.5	139	104	79
	*CoreStates Financial Corp.	CSFN	15.2	37.43	5.70	6.30	6.85	1.62	1.62	2.08	3.47	61- 30	59.7	8.7	160	106	81
	Equimark Corporation	EQK	5.1	1.02	(3.55)	(9.14)		(2.66)	(.02)			7- 3	4.0	N.M.	392		
	Fidelcor	FICR	10.6	25.63	4.08	3.42	3.85	1.81	1.88	1.32	4.00	35- 18	33.0	8.6	129	105	80
	First Pennsylvania	FPA	28.8	8.28	(1.10)	(.13)	.25	(.06)	(.05)			8- 5	7.2	N.M.	88		
	*Mellon Bank Corp.	MEL	26.7	56.21	7.48	5.68	6.35	1.53	1.46	2.68	4.81	57- 38	55.6	8.8	99	107	82
	Meridian Bancorp., Inc.	MRDN	10.4	27.23	3.15	3.75 C	4.30 C	1.72	1.24	1.80	5.07	37- 19	35.4	8.3	130	101	78
	Pennbancorp	PNBA	3.2	41.24	4.57	5.21	5.70	1.22	1.28	2.00	3.36	60- 32	59.4	10.4	148	127	97
	PNC Financial Corp.	PNCF	43.6	20.51	2.75	3.10 C	3.43 C	.90	.86	1.32	4.21	36- 18	31.3	9.1	153	111	85
R.I.	Fleet Financial Group	FLT	15.8	24.44	3.19 C	3.63 A	4.15 C	.99	1.02	1.32	3.09	43- 20	42.6	10.3	175	126	98
	RIHT Financial Corp.	RIHT	2.2	51.35	2.46	6.83		2.13	1.58	2.48	4.13	60- 45	60.0		117		
VT.	Howard Bancorp.	HOBC	1.6	23.25	3.01	2.96	3.25	.82	.81	1.12	4.72	26- 20	23.6	7.3	102	89	68

	Continental Illinois Corp.	CIL	46.0	6.70	2.46	(26.99)	.55	.12	.07			9- 5	7.2	N.M.	108				
	*First Chicago Corp.	FNB	46.9	38.12	3.92	1.19	2.45	1.03	.65	1.32	5.53	27- 19	23.7	9.7	70	118	91		
	Northern Trust Corp.	NTRS	4.9	71.05	3.76	4.06	5.10	.93	.66	2.72	3.75	73- 56	72.4	15.2	102	173	133		
	American Fletcher	AFLT	9.4	23.85	2.33	2.76	3.20	1.33	1.48	.80	2.71	30- 14	29.4	9.2	124	112	84		
	Indiana National Corp.	INAT	5.2	38.00	5.12	5.64 C	5.35 C	1.35	1.23	1.40	3.08	46- 22	45.4	8.5	120	104	79		
	Merchants National Corp.	MCHN	3.3	39.81	2.76	3.75	4.50	1.97	1.35	1.00	2.23	45- 17	44.6	9.3	112	121	93		
	Fourth Financial Corp.	FRTH	5.6	17.45	2.38 C	2.64 C	3.05 C	.62	.79	1.24	4.35	29- 21	28.4	9.3	163	113	87		
	Citizens Fidelity	CFDY	12.1	16.86	2.38	2.80	3.20	.75	.78	1.04	3.01	35- 19	34.4	10.8	205	132	101		
	First Kentucky National	FKYN	13.4	17.35	2.23	2.[illegible]	2.95	.73	.74	1.00	3.28	31- 16	30.4	10.3	176	126			
	Liberty United	LUBC	4.1	25.41	3.03	3.[illegible]	3.85	1.37	1.30	1.05	2.97	37- 22	35.0	9.1	138	111			
	Comerica, Inc.	CMCA	10.1	41.60	4.18 C	4.[illegible] C	5.15 C	1.24	1.27	2.10	4.93	44- 26	42.5	7.8	102	95	73		
	First of America Corp.	FABK	6.8	28.31	3.21 C	4.14 C	4.65 C	1.31	1.02	1.20	3.23	38- 18	37.1	8.0	131	98	75		
	Manufacturers National Corp.	MNTL	5.2	62.39	6.53 C	7.22 C	9.15 C	1.98	2.15	2.00	2.87	70- 29	69.6	7.6	112	93	71		
	Michigan National Corp.	MNCO	11.2	30.08	(.97)	1.81 C	2.60 C	.88	.81	.88	1.38	32- 11	29.0	[illegible]	[illegible]	137	105		
	*NBD Bancorp	NBD	25.4	36.37	3.37 C	3.94 C	4.40 C	2.27	2.20	1.40	3.89	37- 20	36.0	8.2	99	100	77		
	Old Kent Financial Corp.	OKEN	11.4	20.65	2.80 C	3.[illegible] C	3.50 C	.86	.87	1.00	3.17	33- 14	31.4	9.0	153	110			
	First Bank System	FBS	27.5	37.83	4.09	4.[illegible]	5.10 C	1.30	1.24	1.80	3.89	42- 21	41.3	8.1	109	99	[illegible]		
	*Norwest Corporation	NOB	29.6	36.00	3.89	1.[illegible] C	3.00 C	.78	.82	1.80	6.34	33- 22	28.3	9.5	79	116	[illegible]		
	Bankmen's Bancshares	BOAT	6.5	27.57	3.74	4.25	4.10	1.14	.95	1.50	4.23	40- 24	35.4	8.7	129	106	81		
	Centerre Bancorp.	CTBC	7.7	39.84	2.74	3.05	3.30	.78	.82	1.80	5.12	36- 19	35.1	10.6	88	129	99		
	Commerce Bancshares, Inc.	CBSH	5.3	57.41	6.59	5.50	7.20	1.16	1.71	2.08	3.42	61- 40	60.6	8.4	106	102	79		
	Mercantile Bancorporation	MTRC	9.8	38.08	4.47	4.70	5.20	1.14	1.20	1.92	4.88	40- 24	39.3	7.6	103	93	71		
	United Missouri Bancshares	UMSB	7.4	30.25	3.51	4.01		1.11	1.20	1.00	2.74	37- 29	36.4		121				
	*AmeriTrust Corp.	AMTR	18.6	36.50	2.75	3.77	4.00	.94	.92	1.60	3.76	43- 21	42.4	10.6	116	129	99		
	Banc One Corporation	ONE	36.3	17.58	2.55	2.88	3 40	.73	.78	1.10	3.22	35- 21	34.1	10.0	194	122	93		
	Central Bancorporation, Inc.	CBAN	9.5	37.36	4.05	4.80	5.50	1.33	1.32	2.05	3.68	56- 30	55.6	10.1	149	123	94		
	Cenbancorp.	CENB	3.9	39.55	2.89	4.48 C	5.60 C	.87	.94	.80	1.83	44- 19	43.5	7.8	110	95	73		
	Fifth Third Bancorp	FITB	7.5	30.45	4.25	4.85	5.50	1.37	1.24	1.60	2.91	56- 32	55.0	10.0	181	122	93		
	First National Cincinnati Corp.	FNAC	10.0	22.78	2.59	3.00	3.30	.73	.75	1.40	3.33	43- 20	42.0	12.7	184	155	119		
	Huntington Bancshares	HBAN	8.5	33.56	2.67 C	4.60 C	5.15 C	1.30	1.18	1.68	3.43	50- 24	49.0	9.5	146	116	89		
	*National City Corporation	NCTY	13.8	39.75	4.11 C	5.17 C	5.80 C	1.41	1.30	2.00	3.99	51- 26	50.1	8.6	126	105	80		
	Society Corporation	SOCI	8.7	41.39	4.53	5.43	5.90	1.43	1.24	1.84	3.52	54- 29	52.2	8.9	126	109	83		
	Toledo Trustcorp.	TTCO	3.9	38.38	4.21	4.35 C	4.90 C	1.09	1.01	1.90	4.09	47- 34	46.4	9.5	121	116	89		
	First Wisconsin Corp.	FWB	8.5	34.86	3.78	3.40	3.80	1.03	.93	1.30	3.95	33- 16	32.7	8.7	94	106	81		
	Marine Corporation	MCRP	4.2	34.94	3.60 C	3.77 C	4.05 C	1.00	.94	1.40	4.38	35- 18	32.0	7.9	92	96	74		
	Marshall & Ilsley Corp.	MRIS	5.3	89.44	6.53	6.62	7.85	1.70	1.80	2.25	3.57	85- 33	69.3	8.2	130	100	77		


SOUTHERN

WESTERN

AK.	National Bank of Alaska	NBAK	4.0	32.94	4.03	4.62	4.90	1.25	1.12	.50	1.24	41- 25	40.2	8.2	122	108	97
	United Bancorp. of Alaska	UBAK	3.4	10.31	.34	1.46		1.12	.02	.15	1.58	11- 6	9.4		92		
ARIZ.	Arizona Bancwest	ABW	10.3	16.84	1.97	2.26	2.60	.58	.58	.68	2.53	32- 16	31.5	12.2	190	149	114
	United Bancorp. of Arizona	UBAZ	8.6	11.88	1.51 C	1.82 C	2.00 C	.61	.54	.60	2.45	26- 13	24.4	12.3	206	150	115
	*Valley National Corp.	VNCP	16.7	29.15	2.72	3.60	4.25	.98	1.06	1.20	2.90	42- 21	41.3	9.7	142	118	91
CAL.	*First U.America Corporation	FAC	152.0	28.86	2.16	1.77	1.80	.35	.63	1.52	8.00	23- 15	19.0	10.6	66	129	99
	City National Corp.	CTYN	8.3	16.24	2.08	2.38	2.75	.59	.66	.88	3.23	29- 22	27.2	9.9	168	121	93
	First Interstate Bancorp.	I	42.0	51.60	5.72	6.01	6.70	1.62	1.53	2.50	4.73	56- 30	52.7	7.9	102	96	74
	*Security Pacific Corporation	SPC	73.8	27.57	3.61	3.96	4.30	1.09	1.00	1.34	4.31	32- 19	31.1	7.2	113	88	67
	*Wells Fargo & Company	WFC	21.2	57.34	6.03	6.85	8.30	1.92	1.95	2.80	3.23	62- 31	61.9	7.3	106	89	68
COLO.	Affiliated Bankshares of Colo.	ABKC	9.6	16.80	2.00	1.97	2.15	.33	.61	.90	4.48	20- 13	19.7	8.5	105	101	78
	Colorado Nat'l. Bankshares Inc.	COLC	9.9	17.05	2.27	2.13	1.75	.29	(.05)	.74	3.52	22- 15	21.0	12.0	123	146	112
	IntraWest Financial Corp.	INTW	6.8	14.88	2.33	1.47	1.90	.22	.44	.60	3.75	19- 12	16.0	8.4	108	102	79
	United Banks of Colorado	UBKS	9.4	25.97	2.40	3.02	3.35	.80	.68	1.08	3.91	28- 17	27.5	8.2	106	100	77
HAW.	Bancorp Hawaii Inc.	BNHI	8.9	26.77	3.56 C	3.74 C	4.35 C	1.05	1.06	1.24	3.57	35- 18	34.6	8.0	130	98	75
	First Hawaiian Inc.	FHWN	6.7	23.06	3.16	3.62	3.90	1.05	.90	1.40	4.00	35- 20	35.0	9.0	152	110	84
ID.	Moore Financial Group	MFGT	6.8	27.61	3.38	3.20	2.80	.89	.25	1.20	4.48	28- 18	26.6	9.6	96	117	90
N. MEX.	Sunwest Financial Services, Inc.	SNW	4.5	22.13	3.90	4.22 C	4.60 C	1.13	1.25	1.40	3.01	47- 29	45.4	10.1	145	123	94
OKLA.	BancOklahoma Corporation	BOKC	9.7	27.38	3.32	3.26	2.10	.63	.13	.98	4.62	23- 17	19.4	9.3	82	113	87
	Bank of Mid-America	BOMA	7.8	13.99	1.10 C	.07 C	1.00 C	.17)	.24	1.00	10.26	16- 9	9.6	9.8	70	120	92
	First Oklahoma Bancorp., Inc.	FOKL	9.8	13.73	(4.50)	(2.90)	(1.00)	.19	.24			15- 7	7.5	N.M.	56		
ORE.	Oregon Financial Services	ORBN	3.0	27.34	(3.29)	(1.38)	(1.00)	.28)	(.30)			19- 11	17.0	N.M.	63		
	U.S. Bancorp.	USBC	19.8	26.96	2.93	3.05	3.30	.85	.71	1.00	3.23	32- 17	31.0	9.8	115	115	88
TEX.	Allied Bancshares	ALBN	41.0	14.37	2.53	2.89	3.80	.75	.76	.84	3.61	28- 20	23.2	7.8	163	95	73
	BancTexas Group	BTX	23.2	3.50	.08 C	(.40) C	.25 C	.51)	.05			8- 2	2.4	N.M.	71		
	Cullen/Frost Bankers, Inc.	CFBI	7.1	22.44	(3.16)	2.06	2.00	.37	.39	.98	4.95	34- 18	19.0	9.5	85	116	89
	First City Bancorporation	FBT	33.8	24.55	1.23	1.97	1.00	.35	.10	1.30	10.40	20- 11	12.4	12.5	51	152	117
	*InterFirst Corporation	IFC	67.5	17.37	(2.82)	1.72	1.15 C	.20	.23	.60	5.39	16- 10	11.1	9.7	64	118	91
	MCorp	MBK	42.1	25.08	3.96 C	3.51 C	3.40 C	.79	.80	1.40	6.19	27- 17	22.5	6.7	90	82	63
	National Bancshares Corp. of Texas	NBAH	9.5	19.69	1.90 C	2.58 C	2.65 C	.62	.66	.84	3.39	27- 18	24.6	9.3	126	113	87
	RepublicBank Corp.	RPT	27.4	37.92	4.50 C	4.55 C	4.80 C	1.21	1.16	1.64	5.11	35- 22	32.1	6.7	85	82	63
	Texas American Bancshares	TXA	10.6	34.69	3.66	4.06	3.85	.90	.71	1.52	4.62	43- 31	32.7	8.5	95	104	79
	*Texas Commerce Bancshares	TCB	32.5	36.40	5.50	5.68	6.35	1.37	.58	1.56	4.86	48- 31	31.7	7.3	88	89	68
UTAH	First Security Corp.	FSCO	12.1	28.55	1.70 C	1.83 C	1.15 C	.47	.17	1.10	4.54	26- 15	24.2	21.1	93	257	197
	Valley Utah Bancorp.	VUBN	2.3	21.75	2.95	2.75	2.95	.66	.67	1.08	3.79	29- 18	28.6	9.7	131	118	91
	Zions Utah Bancorp.	ZION	5.7	30.42	4.00	4.05 C	4.40 C	1.15	1.05	1.36	3.65	38- 29	37.2	8.5	122	103	79
WASH.	Ok-Bi Corporation	OKBI	2.6	25.50	(2.04)	(.55)	.10	.25	(.29)			18- 12	15.0	N.M.	59		
	Peoples Bancorporation	PEOP	3.8	34.93	1.56	3.81	4.20	1.17	.99	1.00	2.42	43- 20	41.2	9.8	118	120	92
	Puget Sound Bancorp.	PSNB	4.7	21.27	3.17	3.62	4.00	1.04	.90	1.12	2.85	40- 20	39.2	9.2	185	120	92
	Rainier Bancorp.	RBAN	10.8	23.03	2.85	3.13	3.35	.78	.73	1.00	1.15	32- 17	31.6	9.5	138	116	89
WY.	Affiliated Bank Corp. of Wy.	ABWY	1.2	33.04	(1.17)	.84	1.70	1.16)	.55	1.00	5.26	27- 16	19.0	11.2	58	137	105
	First Wyoming	FWO	3.2	15.60	1.39 C	1.15 C	1.35 C	.23	.26	.80	5.18	16- 11	15.7	11.0	95	138	103

*=XR. L=latest 12 months. C=fully converted.

KEEFE INDEX vs. S & P

1985	KEEFE INDEX	S & P 400	S & P 500
05	1409	212.27	192.52
12	1456	212.48	191.28
15	1438	211.78	192.72

JAN

1985	% Change since 12/31/84 KEEFE INDEX	S & P 400	S & P 500
	1134	186.36	167.24
05	24.1	13.9	15.1
12	28.4	14.0	15.6
15	26.8	13.6	15.2

KEEFE, BRUYETTE & WOODS, INC. KBW

The Banking Industry Specialists

NO DECLINE IN E.P.S for LAST 10 YEARS, with 10 YEAR CGR's

*Fleet Financial	(RI)	35.2%	First Kentucky National	(KY)	13.7%
*Northwestern Financial	(NC)	22.8	*Bank of New England	(MA)	13.5
*Central Fidelity	(VA)	17.8	Banc One	(OH)	12.9
Allied Bancshares	(TX)	16.7	*United Jersey	(NJ)	12.2
Citizens & Southern	(SC)	15.7	Old Kent Financial	(MI)	12.1
*Security Pacific	(CA)	15.7	*Boatmen's Bancshares	(MO)	12.1
Citizens Fidelity	(KY)	15.5	Horizon Bancorp	(NJ)	11.6
*Zions Utah	(UT)	15.4	Arizona Bancwest	(AZ)	11.6
Texas Commerce	(TX)	15.3	First Hawaiian	(HW)	11.3
National Bank of Alaska	(AK)	14.9	Sunwest Financial	(NM)	11.1
*NCNB	(NC)	14.4	Merrill Bankshares	(ME)	6.7
Wachovia	(NC)	13.9			

10 BEST PERFORMING BANKS

10 Year EPS CGR			5 Year EPS CGR		
*Fleet Financial	(RI)	35.2%	Alaska Pacific Bancorp	(AK)	62.0%
*Northwestern Financial	(NC)	22.8	*Fidelcor	(PA)	35.3
*Citizens & Southern Ga.	(GA)	21.7	State Street Boston	(MA)	25.6
Louisiana Bancshares	(LA)	20.9	Trust Company of Ga.	(GA)	24.5
First Wisconsin	(WI)	20.9	First Atlanta	(GA)	21.9
*First Florida Banks	(FL)	19.8	Citizens & Southern Ga.	(GA)	21.8
United Bancorp of Az.	(AZ)	19.5	*Allied Bancshares	(TX)	20.7
Trust Company of Ga.	(GA)	18.9	*U.S. Trust	(NY)	20.6
*The Conifer Group	(MA)	18.9	Indiana National	(IN)	20.5
*Central Fidelity Banks	(VA)	17.8	BancOklahoma	(OK)	19.3
Average		20.2	Average		27.4

KBI-10 yr. CGR 10.3% **KBI-5 yr. CGR 9.2%**

10 WORST PERFORMING BANKS

10 Year EPS CGR

*American Security	(DC)	-12.3%	Equimark	(PA)	N.M.
*Bank of Mid-America	(OK)	-32.0%	First Oklahoma Bancorp	(OK)	N.M.
*BancTexas Group	(TX)	N.M.	First Pennsylvania	(PA)	N.M.
*Continental Illinois	(IL)	N.M.	ONB Corporation	(WA)	N.M.
Crocker National	(CA)	N.M.	Orbanco Financial	(OR)	N.M.

N.M.=Not meaningful because of reported loss in 1984. *New additions.

Keefe Equity Research

JULY 16, 1985

KEEFE BANK HONOR ROLL

1985

Historic Fully Diluted EPS on IBST

Bank Name	Symbol	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	Five Year CGR '79-'84	Ten Year CGR '74-'84
SOUTHEAST														
Amsouth Bancorp	ASO	$3.42	2.97	2.61	2.67	2.57	2.39	2.24	1.61	1.55	1.59	1.62	8.0%	9.1%
Central Banche BankS	CBSH	3.53	3.50	3.06	1.72	2.48	2.70	2.50	2.20	1.76	1.24	1.52	5.9%	8.8%
Colonial Bancgrp Inc	CLBA	1.80	1.55	0.72	1.39	0.16	0.81	1.08	1.02	1.16	B/A	B/A	13.1%	NMF
First Alabama Bancsha	FABC	2.63	2.55	2.16	2.52	2.23	1.97	1.66	1.47	1.27	1.11	1.09	7.5%	10.0%
First&Trust Corp	FTCO	1.61	1.32	1.27	1.12	1.05	0.91	0.96	0.82	0.75	0.50	0.56	14.6%	13.7%
Atlantic Bancorp	ABAC	3.68	3.74	3.43	1.98	1.84	1.48	1.11	0.66	0.36	0.42	0.43	15.8%	12.7%
Barnett Banks of Fla	BBF	3.31	2.87	2.50	2.34	1.99	1.61	1.23	0.77	0.65	0.58	0.69	15.6%	16.1%
First Bankers Corp Fla	FBF	2.14	2.05	2.35	2.39	2.21	1.72	1.44	1.06	1.00	1.16	1.38	4.5%	4.5%
First Fla Banks, Inc	FFBK	2.27	2.17	1.64	1.34	1.33	1.05	0.79	0.52	0.34	0.47	0.39	17.7%	19.0%
Florida Bnkl Banks	FBNK	3.40	2.01 C	1.05	1.34	1.47	1.05	1.01	0.71	0.65	0.61	0.66	10.6%	12.4%
Landmark Banking Corp	LNDC	1.40	1.83	1.65	1.36	1.44	1.04	0.85	0.72	0.45	0.98	1.08	5.3%	2.6%
Pan American Banks	PAB	2.97	2.53	2.78	2.24	2.12	1.76	1.33	0.80	0.62	0.23	0.67	11.0%	13.1%
Southeast Banking Corp	STB	0.40	0.01	2.60	2.60	2.11	2.60	2.66	1.11	1.62	1.19	1.73	4.0%	7.0%
Sun Banks Inc	SB O	3.94	3.34	2.62	2.65	2.63	2.28	1.72	1.02	0.66	0.58	1.25	6.0%	8.0%
First South Corp	FSCO	2.00	1.72	1.01	1.42	1.19	0.84	0.68	0.35	0.29	0.26	0.55	19.2%	13.7%
Citizens & Southern GA	CSOG	2.38	1.86	1.72	1.51	1.39	0.65	0.32	(0.30)	0.46	0.55	0.32	21.0%	21.7%
First Atlanta Corp	FAC	2.10	1.91	1.81	1.51	1.65	0.76	0.67	0.09	0.49	0.32	0.48	21.9%	15.9%
First GA & Banking	FGBK	2.07	2.50 D	2.10	1.62	1.50	1.29	0.57	0.85	0.30	0.84	0.88	10.9%	12.2%
Trust Company of GA	TRU.A	3.74	3.66	2.58	2.30	1.85	1.25	0.52	0.57	0.46	0.65	0.66	24.5%	18.9%
First Commerce Corp	FCOM	3.75	2.60 E	2.50	2.57	2.43	2.06	2.02	1.25	0.52	1.39	17.2%	7.5%	
Hibernia Corp	HIBCO	2.42	2.48	2.16	1.85	1.50	1.35	1.10	0.84	0.72	0.61	0.52	12.5%	16.5%
Louisiana Bancshares	LABS	1.87	1.74	1.50	1.45	1.19	0.95	0.79	0.62	0.57	0.57	0.28	14.4%	20.9%
Whitney Holding Corp		7.47	7.07	6.89	7.32	6.00	4.75	4.25	3.96	3.23	3.27	2.63	10.0%	10.0%
Equitable Bancorp	EQBC	2.01	1.33	1.14	2.32	0.96	1.35	1.32	1.11	0.82	0.80	0.87	14.0%	11.6%
First Maryland Bancorp	FMDL	3.64	3.65	0.76	4.05	4.04	4.04	3.30	2.72	2.26	2.30	1.24	-2.1%	11.4%
Maryland Natl Corp	MNAT	2.96	2.10	2.51	2.67	2.23	1.82	1.52	1.32	1.12	1.44	1.31	9.0%	8.1%
Mercantile Bancshares	MRBC	5.17	4.73	4.30	3.87	2.64	2.68	2.39	2.15	1.98	1.80	1.52	12.6%	10.4%
Suburban Bancorp	SUBC	3.38	4.75	4.19	3.62	3.41	3.05	2.85	2.41	2.26	2.28	1.67	8.0%	8.1%
Signet Bancorp Corp	SIGN	4.45	3.77	3.14	3.35	4.00	4.30	3.69	3.28	3.00	2.60	2.38	2.3%	7.0%
Branch Corp	BRCH	3.10	2.73	2.46	2.39	2.80	2.64	2.12	1.74	1.60	1.86	1.53	3.1%	7.3%
First Union Corp	FUNC	4.64	4.03	3.24	2.90	2.43	2.12	1.73	0.82	0.74	0.72	0.99	17.0%	16.7%
NCNB Corp	NCB	4.00	3.65	3.23	2.82	2.61	2.07	2.02	1.42	1.20	1.10	1.05	9.0%	14.4%
Northwestern Fincl	NWFS	2.07	1.62	1.63	1.56	1.32	1.13	0.92	0.91	0.80	0.79	0.33	17.9%	22.0%
Pendavis Corp	PN	1.28	1.75	1.62	2.07	1.73	1.05	1.29	1.02	0.98	0.67	0.17	17.1%	13.9%
Sanders Trust Bk Corp	STSC	1.55	2.40 F	2.02	2.05	1.71	1.50	1.33	0.62	0.50	0.60	0.04	17.8%	15.7%
CitizensandSouthernCorp	CSTR	3.47	2.96	2.07	2.27	1.94	1.56	1.23	1.01	0.87	0.62	0.01	17.2%	15.7%
So Carolina Natl Corp	SCBC	3.40	3.00	2.88	2.52	2.13	2.04	1.56	1.14	1.03	0.98	1.25	12.6%	11.4%
Southern Bancorp	STBK	1.46	1.07	1.04	1.08	1.04	1.73	1.27	0.98	0.66	0.54	0.62	-0.3%	10.4%
Commerce Union Corp	CUNC	3.28	2.66	2.24	1.75	1.76	1.72	1.66	1.60	2.03	1.97	1.90	14.5%	6.0%
First American Corp	FATC	3.40	2.62	2.76	2.66	2.35	1.96	1.60	1.25	0.85	(0.67)	1.05	11.6%	12.5%
First Tenn Natl Corp	FTEN	4.14	3.22	3.27	3.08	2.60	2.45	2.17	1.67	B/A	B/A	B/A	11.1%	NMF
Third Natl Corp	TNAT	4.45	3.84	3.24	3.17	2.65	2.23	1.63	1.28	1.17	0.67	1.48	14.7%	11.9%
Bank of Virginia	BKVI	2.52	2.43	1.99	1.39	1.15	1.47	1.35	1.21	0.60	1.10	1.12	14.9%	10.1%
Central Fidelity Banks	CFBK	3.21	2.63	1.64	1.52	1.39	1.23	1.05	0.85	0.72	0.63	0.65	13.3%	17.0%
Dominion Bankshares	DBSH	3.15	2.99	2.27	2.01	2.60	2.69	2.28	1.98	1.77	1.63	1.45	3.3%	8.0%
First Virginia Banks	FVB	2.45	2.38	2.09	1.70	1.45	1.21	1.07	0.89	0.79	0.72	0.75	13.3%	12.6%
Sovran Financial Corp	SOVN	4.63	4.32	3.90	3.63	2.92	2.72	2.42	1.83	1.63	1.57	1.74	11.2%	10.2%
United VA Bankshares	UVBK	4.51	4.08	3.72	3.37	3.06	2.68	2.10	1.68	1.10	1.24	1.36	10.9%	12.9%
WESTERN														
Alaska Pacific Bancorp	APBC A	22.01	2.26	1.76	1.10	0.53	0.27	0.36	B/A	B/A	B/A	B/A	52.0%	NMF
Bankamer Bank Alaska	BAAZ	4.57	3.92	3.76	3.50	2.38	2.14	7.05	1.98	1.76	1.52	1.14	16.6%	14.9%
United Bancorp Alaska	UBAK	1.60	0.27	1.47	1.60	0.26	(0.01)	0.24	B/A	B/A	B/A	B/A	NMF	NMF
BancTexas Texas	TXBC	7.38	7.97	7.98	1.68	1.97	1.71	1.76	1.18	0.84	0.90	0.75	5.7%	11.8%
United Bancorp Ariz	UBAZ	1.82	1.53	1.42	1.45	1.22	1.17	0.89	0.56	0.45	0.34	0.21	9.3%	19.5%
Valley National Corp	VNCP	3.77	3.73	3.03	2.60	2.51	2.17	2.67	1.71	1.27	1.25	1.25	3.5%	11.7%
BankAmerica Corp	BAC	1.79	2.07	2.82	3.08	4.38	4.10	3.53	1.71	2.48	2.19	1.26	6.8%	-0.7%
City National Corp	CTYN	2.32	2.05	1.72	2.46	2.20	1.98	1.78	0.68	0.00	0.37	0.47	N	17.2%
Crocker National Corp	CNBq	(13.42)	(0.04)	3.56	3.60	6.15	7.65	5.31	4.03	3.40	3.06	2.29	-0	NMF
Security Pacific Corp	SPC	5.96	5.62	5.27	2.94	2.73	2.40	2.16	1.64	1.24	1.09	0.92	9.0%	15.7%
Wells Fargo & Co	WFC	6.78	6.02	5.04	5.41	5.22	5.01	5.15	2.92	2.10	2.74	2.46	2.0%	10.7%
CAPITOLCAP Bancshs Colo	CPBK	1.96	2.01	1.58	2.08	1.65	1.58	1.47	1.11	0.86	0.73	0.66	4.0%	11.5%
Colo Natl Bankshares	COLC	2.13	2.26	2.32	2.21	1.90	1.76	1.38	0.99	0.62	0.50	0.49	3.6%	16.0%
InterMountain Financia.	IMTN	1.47	2.06	(1.52)	0.46	2.97	2.13	3.29	2.48	2.14	1.81	2.68	-14.0%	-6.0%
United Banks Colorado	UBCO	2.52	2.45	2.42	1.98	2.68	2.52	2.04	1.64	1.51	1.21	1.21	6.5%	9.6%
Bancorp Hawaii	BNCH	3.76	3.58	3.77	3.14	3.42	2.92	2.30	1.96	1.63	1.70	1.58	5.1%	9.0%
First Hawaiian	FHWN	2.66	2.15	2.75	2.67	2.53	2.24	1.92	1.66	1.50	1.29	1.25	10.3%	11.3%
Manoa Financial Group	MFGI	2.80	3.00	2.82	2.88	3.11	2.83	2.41	2.08	1.85	1.67	1.65	7.7%	6.0%
Bancwest First Penn	BFSI	4.27	3.90	3.74	3.11	2.82	2.73	2.47	2.08	1.68	1.71	1.47	9.1%	11.1%
BancOklahoma Corp	BOKC	3.19	3.30	2.82	2.62	2.40	1.32	1.11	0.58	1.33	2.81	2.52	19.3%	2.4%
Bank of Mid-America	BOMA	0.02	1.06	2.96	2.99	2.66	1.69	1.35	1.22	1.11	1.02	0.95	-50.0%	-32.0%
First Oklahoma Corp	FOKL	(2.94)	(5.42)	1.96	3.27	2.67	2.23	1.77	1.38	1.06	0.80	0.84	NMF	NMF
Oklahoma Financial Corp	OFJP	(1.38)	(2.30)	2.13	4.71	4.43	3.81	3.24	2.77	2.53	1.86	1.86	NMF	NMF
SW Bancorp	SWBC	5.07	3.65	3.45	3.30	2.95	2.68	2.36	1.98	1.68	1.41	1.20	2.5%	6.7%
Allied Bancshares	ALBS	2.90	2.57	2.26	1.63	1.43	1.19	0.95	0.95	0.79	0.69	0.62	20.7%	16.7%
Bane/Texas Group	BTX	(0.43)	5.08	0.76	0.95	0.49	0.17	0.10	0.09	(0.02)	(0.08)	(1.63)	NMF	-19.2%
Cullen/Frost Bankers	CFBI	2.65	(3.60)	9.70	3.60	2.77	2.30	1.88	1.64	1.16	0.94	1.52	1.3%	3.1%
First City Bancorp	FBT	1.91	1.35	2.90	2.35	2.86	2.73	2.34	1.88	1.72	1.56	1.35	-0.5%	3.5%
InterFirst Corp	IFC	1.79	(2.04)	3.88	3.65	2.86	2.65	2.05	1.75	1.52	1.41	1.25	-5.1%	3.7%
RAmy	RAM	3.15	3.60	4.18	3.68	3.08	2.54	2.21	1.62	4.53	1.06	1.03	4.5%	11.9%
Natl Bancshs Corp Texas	NBxS	2.57	1.90	2.41	3.02	2.80	2.70	1.69	1.63	1.52	1.46	1.54	3.2%	5.3%
RepublicBank Corp	RPT	4.88	4.57	5.49	5.68	4.04	3.40	2.84	2.16	1.91	2.23	2.00	6.0%	6.1%
Texas American Bancshs	TXA	4.06	3.79	4.96	4.77	3.82	3.15	2.01	2.51	2.18	1.98	2.02	5.2%	7.2%
Texas Commerce Bancshs	TCB	5.64	5.62	5.08	4.06	3.52	2.85	2.36	1.92	1.67	1.54	1.35	14.6%	15.3%
First Security Corp	FSCX	1.96	1.90	2.43	2.38	2.80	2.80	2.36	1.92	1.67	1.54	1.35	14.6%	15.3%
Valley Utah Bancorp	VBUT	2.74	2.85	2.73	2.48	2.32	2.24	2.29	1.92	1.62	1.53	1.54	-10.6%	0.7%
Zions Utah Bancorp	ZUBC	3.59	3.25	2.90	2.48	2.15	2.90	2.40	1.93	1.65	1.32	0.96	3.2%	5.7%
CBM Corp	BLAB	(0.90)	(2.85)	(0.48)	2.89	3.38	3.02	2.70	2.62	2.40	1.77	1.57	3.6%	15.6%
Peoples Bancorp	PEOP	3.01	1.57	3.30	3.63	3.47	3.27	2.73	2.47	1.60	1.49	1.02	2.5%	14.0%
Puget Sound Bancorp	PUGT	2.62	3.16	2.57	1.98	2.27	2.17	1.61	1.64	1.35	1.17	0.91	10.0%	14.0%
Pointer Bancorp	PBAN	2.16	2.61	2.05	2.35	2.11	2.12	1.94	1.65	1.45	1.25	0.52	8.3%	13.0%
Affiliated Bnk Corp Of	ABWY	0.76	(1.21)	4.41	6.72	4.61	4.35	3.73	2.51	2.38	2.57	2.11	-26.7%	-9.0%
First Wyoming	FW	1.12	1.32	1.40	1.90	1.91	1.69	0.96	1.19	1.39	1.07	1.01	-7.5%	1.0%

FOOTNOTES:

A) Excludes non-recurring gain of $3.47 per share on sale of leasehold interest in office building.
B) Excludes non-recurring gain of $2.05 per share on sale of Graham Mortgage Company.
C) Excludes non-recurring gain of $0.51 per share on sale/leaseback of building.
D) Excludes non-recurring gain of $0.65 per share on sale of stock of subsidiary.
E) Excludes non-recurring loss of $0.01 per share on merger expenses.
F) Excludes non-recurring gain of $0.61 per share on sale of mortgage banking subsidiary.
1) Merged into Bank of New England.
2) Merged into SBU Bancorp.
3) Merged to form SunTrust Banks.
4) Merged into Key Banks.
5) Merged into London-based Midland Bank.

KEEFE BANK HONOR ROLL
1985
Historic Fully Diluted EPS on IBST

Bank Name	Symbol	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	Five Year CAGR '79-'84	Ten Year CAGR '74-'84
EASTERN														
Bank of New York Co	BK	66.36	4.64	4.21	3.79	3.77	2.96	2.68	2.15	2.30	2.21	2.36	12.3%	8.6%
Bankers Trust NY Corp	BT	9.81	8.41	8.72	7.06	5.65	4.60	3.34	2.48	2.32	2.21	2.27	15.3%	15.9%
Chase Manhattan Corp	CMB	8.40	9.92	7.96	11.63	9.62	8.30	6.08	3.29	2.94	4.30	5.00	0.3%	5.3%
Chemical New York Corp	CNL	5.71	6.96	5.79	9.13	6.96	5.54	3.09	N/A	N/A	N/A	N/A	10.0%	EBS
Citicorp	FNC	6.29	6.11	5.50	4.20	3.09	3.15	3.70	2.90	2.08	2.73	2.53	2.7%	9.6%
Irving Bank Corp	V	5.08	4.86	4.66	5.52	4.83	3.92	3.14	2.80	2.43	2.57	2.39	5.3%	6.3%
Manufacturers Hanover	MHC	6.15	7.02	7.82	7.35	6.91	6.41	6.04	5.15	4.62	4.39	4.30	-0.8%	3.7%
Marine Midland Banks	MI	4.04	4.49	4.52	4.85	3.62	3.22	1.90	1.32	N/A	1.24	2.74	4.0%	4.0%
JP Morgan & Co	JPM	5.20	5.20	5.34	4.43	4.44	3.94	3.38	2.66	2.51	2.47	2.43	11.1%	9.9%
Republic New York Corp	RNB	6.62	6.41	5.69	6.13	6.74	5.06	2.91	2.00	1.76	1.89	1.67	16.9%	13.7%
BT Trust Corp	BTTC	3.32	3.76	2.67	2.12	1.64	1.35	1.05	1.22	1.29	1.71	1.59	20.6%	7.2%
CBT Corporation	CBCT	4.84	3.70	3.20	3.00	4.14	3.50	2.85	2.02	1.07	1.05	1.98	6.7%	8.3%
Citytrust Bancorp	CITY	3.71	3.42	3.06	2.03	1.64	1.35	1.22	0.86	(0.17)	0.41	1.03	19.1%	13.7%
First Connecticut	FCBC	4.23	3.57	3.50	3.21	2.62	2.44	1.78	1.40	1.30	1.32	1.31	11.6%	12.4%
Hartford Natl Corp	HNAT	3.79	3.79	2.97	3.78	3.23	2.34	1.50	0.84	(4.96)	1.68	10.1%	7.2%
Northeast Bancorp	NBLC	4.54	3.52	4.78	4.71	4.57	4.25	3.25	1.76	2.68	2.82	2.72	4.5%	7.2%
Wilmington Trust Co	WILM	5.80	4.36	3.40	3.04	2.71	1.96	1.55	1.42	1.54	1.13	1.96	15.0%	11.1%
American Security Corp	ASBC	6.36	5.94	5.76	5.31	3.34	3.00	1.77	1.57	1.41	1.29	1.79	-29.6%	-12.2%
Riggs National	RIGS	3.87	3.76	3.58	4.07	4.07	3.64	3.06	2.62	2.16	2.63	2.96	1.2%	2.6%
Washington Bancorp		5.93	5.12	3.94	1.50	2.77	0.90	4.51	3.04	2.71	2.72	2.27	2.4%	10.1%
Virginia Bankshares	BKVA	1.01	1.02	1.23	1.17	1.11	1.06	0.96	0.88	0.84	0.72	0.81	6.7%	6.7%
Bank of Boston Corp	BKB	8.36	7.29	6.92	6.23	5.53	4.60	3.40	2.97	2.37	2.86	3.07	12.7%	10.5%
Bank of New England	BKNE	4.94	4.31	4.19	4.10	3.86	2.91	2.43	2.13	1.58	1.43	1.39	11.1%	13.5%
BayBanks Inc	BBMS	5.69	4.86	5.17	4.72	4.10	3.80	2.79	2.06	1.72	1.97	2.27	10.1%	9.1%
The Conifer Group	CNFG	2.77	2.60	2.46	2.67	2.38	1.79	1.03	0.62	0.17	0.49	0.29	9.2%	10.9%
Multibank Financial	MLTF	2.79	2.84	2.05	2.02	1.87	1.37	0.85	0.47	0.07	0.45	0.71	17.1%	14.6%
Shawmut Corporation	SMAS	4.63	3.44	3.73	3.45	3.10	2.93	1.60	1.27	1.03	0.27	1.49	9.6%	9.7%
State St Boston Corp	STBK	5.15	5.23	5.73	5.10	3.67	3.48	2.91	2.38	2.72	2.06	1.17	21.6%	16.0%
Southeast Bank Shares	SBKC	1.64	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	EBS	EBS
Indian Head Banks	IHBI	2.05	2.20	2.04	2.26	2.52	2.01	1.35	1.14	1.15	1.20	1.23	12.5%	11.2%
Consolidation Bancorp	CBPC	2.24	2.31	2.31	2.03	1.79	1.62	1.43	1.75	1.00	1.74	1.67	13.9%	8.7%
First Fidelity Bancorp	FFB	6.27	7.07	6.45	8.40	4.83	4.35	3.63	3.02	2.01	2.06	2.22	6.4%	7.1%
First Jersey National	FJNC	3.74	3.93	3.21	3.37	3.93	3.23	2.96	1.90	1.91	1.05	1.27	3.4%	11.4%
Horizon Bancorp	HRZB	2.90	2.69	2.31	2.21	2.03	2.02	1.65	1.36	1.01	0.93	0.97	7.5%	11.6%
MidAtlantic Banks	MIDL	4.06	3.56	2.99	3.08	2.35	2.10	1.61	1.05	0.84	0.75	1.42	14.1%	11.1%
New Jersey Natl Corp	NJNB	2.84	2.53	2.30	2.06	1.63	1.05	1.51	1.35	1.30	1.48	1.90	14.7%	6.1%
Summit Bancorp	SMBC	2.22	2.03	1.90	2.01	2.08	1.78	1.48	1.19	1.07	0.96	1.03	4.5%	8.0%
United Jersey Banks	UJB	4.73	4.01	3.54	3.38	2.63	2.06	2.14	1.61	1.51	1.50	1.50	16.5%	12.2%
First Empire St. Corp	FESP	5.42	2.01	4.27	3.60	3.48	3.02	2.47	1.35	(1.11)	1.07	1.75	16.3%	12.5%
Key Banks, Inc	KEY	3.21	2.74	2.33	1.98	2.15	2.01	1.89	1.75	1.64	1.90	1.86	9.8%	9.0%
Marine Bancorp	MAR	4.66	4.47	4.32	3.76	3.05	2.76	2.66	2.42	2.60	2.63	2.16	8.8%	8.1%
Continental Bancorp	CNBP	4.34	3.77	4.92	4.36	3.80	3.00	2.93	2.49	2.36	2.11	2.00	8.0%	9.1%
CoreStates Finel Corp	CSFS	6.37	9.73	5.20	3.40	3.50	3.00	2.87	2.14	2.33	2.38	2.20	10.4%	10.8%
Drought Deposit Corp	DrDP	0.25	3.96	3.97	4.42	3.85	2.92	2.73	2.34	2.21	2.13	2.07	7.8%	7.8%
Equimark Corporation	EMK	(5.12)	(4.08)	0.11	(11.05)	1.71	1.60	2.05	1.87	1.70	1.98	2.38	EBS	EBS
Fidelcor	FICR	3.38	4.07	2.76	2.61	1.43	0.75	(1.35)	1.22	1.44	1.82	2.30	25.2%	4.4%
First Pennsylvania	FPA	(0.13)	(1.10)	(1.84)	(0.40)	(5.99)	1.06	2.12	2.10	1.60	1.99	2.71	EBS	EBS
Mellon National Corp	MEL	5.87	7.36	7.25	6.41	5.62	5.16	4.60	3.62	3.21	3.35	3.09	1.6%	6.1%
Meridian Bancorp Inc	MRBN	3.66	3.06	1.67	1.41	1.67	1.53	1.41	1.14	0.97	0.68	0.67	18.3%	15.6%
PennBancorp	PNBA	5.06	4.67	4.27	4.05	3.62	3.04	3.01	2.82	2.10	2.03	2.50	7.9%	7.3%
PNC Financial Corp	PNCF	2.98	2.77	2.96	2.00	2.35	1.99	1.00	1.36	1.30	1.34	1.15	7.0%	9.7%
Union National Corp	UNBC	2.17	1.65	2.12	2.10	1.99	1.57	1.00	1.12	1.02	0.96	1.21	2.0%	6.0%
First Financial Group	FLT	3.05	3.30	3.08	2.71	2.34	1.58	1.02	1.38	1.08	0.96	0.38	13.0%	20.7%
RIMT Financial Corp	RIMT	3.75	3.05	2.67	2.66	2.53	2.05	1.62	2.11	2.60	2.50	2.66	6.0%	9.6%
Security Corp	SCTY	3.73	3.05	2.62	1.80	2.16	2.01	1.96	1.43	1.26	0.97	0.53	7.7%	12.8%
MIDWESTERN														
Continental Illinois	CIL	7.63	2.42	2.19	6.54	6.76	4.96	4.91	4.06	3.72	3.62	3.76	EBS	EBS
First Chicago Corp	FNB	1.19	3.92	3.52	3.06	1.66	2.01	2.30	2.60	2.26	2.67	2.66	-16.6%	-7.7%
Northern Trust Corp	NTRS	4.02	3.67	6.96	7.93	6.09	5.32	5.11	5.41	5.26	5.02	4.76	-0.7%	-1.2%
American Fletcher	AFLT	2.70	2.43	1.92	1.69	2.07	2.06	1.78	1.38	0.82	1.38	1.54	5.5%	5.6%
Indiana Natl Corp	INAT	5.65	2.98 A	5.38	5.71	5.17	3.23	0.20	0.56	(0.20)	0.06	1.06	20.5%	11.0%
Merchants Natl Corp	MCHN	3.75	3.66	2.53	0.24	5.40	4.77	2.77	2.27	2.15	1.19	-0.7%	12.2%	
Fourth Financial Corp	FRTH	2.71	2.70	2.75	2.84	1.96	1.36	1.10	0.98	0.79	0.80	0.84	14.8%	12.5%
Citizens Fidelity	CFNC	2.84	2.44	2.30	1.91	1.80	1.45	1.15	0.90	0.87	0.77	0.57	15.9%	18.5%
First Kentucky Natl	FKYN	2.74	2.23	1.97	1.61	1.56	1.49	1.22	1.02	0.92	0.67	0.76	12.9%	12.7%
Liberty United	LUBC	3.05	2.93	3.02	2.72	2.41	2.43	2.11	1.61	1.53	1.49	1.63	7.2%	7.2%
First of America Corp	FABC	4.10	3.16	2.66	2.22	2.07	2.67	2.19	1.87	1.43	1.39	1.15	9.8%	13.6%
Manufacturers Natl	MNTL	7.22	7.07	2.19 G	1.33	4.97	6.15	5.70	4.21	3.46	2.77	2.73	2.3%	6.0%
Michigan National	MNCO	1.79	(0.60)	0.22	2.22	3.69	3.50	3.74	3.09	2.66	2.15	1.63	-14.6%	-0.2%
NBD Bancorp	NBD	4.12	3.62	3.11	2.72	3.14	3.22	2.60	2.14	1.96	1.96	1.72	5.0%	9.1%
Old Kent Financial	OLKN	3.12	2.38	2.01	1.62	1.61	1.60	1.69	1.83	1.14	1.03	0.99	11.6%	12.1%
United Michigan Corp	UMCO A	0.91	0.03	2.65	2.29	3.50	0.96	5.52	5.10	4.36	3.48	3.29	5.2%	6.8%
First Bank System	FBS	5.17	4.14	3.61	2.36	2.01	2.39	2.89	2.92	2.02	2.06	1.91	4.9%	8.1%
Norwest Corp	NOB	1.45	1.52	2.79	4.57	4.28	4.05	3.57	3.09	2.63	2.47	2.10	-16.6%	-1.7%
Southern's Bancshares	SBST	4.20	3.74	3.09	3.13	2.76	2.35	1.79	1.47	1.64	1.36	1.62	12.7%	10.1%
Centerre Bancorp	CTBC	2.96	2.69	2.84	2.12	4.61	4.06	3.61	3.22	3.06	2.71	2.80	-6.1%	2.2%
Commerce Bancshares	CMBN	6.01	6.33	6.35	6.28	5.17	4.70	4.60	3.86	3.22	3.01	2.57	6.0%	8.9%
Mercantile Bancorp	MTBC	4.66	4.82	4.66	4.00	4.28	3.71	3.07	2.80	2.54	2.49	2.29	4.0%	7.0%
United MO Bancshares	UMBS	3.67	3.71	4.35	4.15	3.24	2.51	2.03	1.74	1.67	1.34	1.33	9.0%	11.6%
AmeriTrust Corp	AMTR	2.75	2.60	2.50	2.36	2.17	2.12	2.03	2.07	2.27	2.24	2.13	3.7%	5.0%
Banc One Corp	BNS	2.97	2.87	2.78	2.62	1.77	1.60	1.29	1.16	1.03	0.69	0.66	12.0%	12.9%
Central Bancorp Inc	CBAS	4.72	4.06	3.04	3.05	2.86	2.91	2.85	2.16	2.07	2.04	2.03	4.1%	8.6%
Cumbcon Corp	CBNB	4.27	2.41	2.13	(3.11)	4.66	6.30	5.16	4.30	3.90	3.85	-7.0%	1.0%	
Fifth Third Corp	FITB	4.08	4.16	3.77	3.40	2.82	2.47	1.91	1.39	1.27	1.41	1.27	14.0%	14.3%
First Natl Cincinnati	FNAC	3.00	2.58	2.50	2.05	2.04	2.29	2.10	1.05	1.46	1.40	1.35	5.5%	8.3%
Huntington Bancshares	HBAN	4.04	2.67	4.24	4.09	3.40	3.04	2.91	2.21	1.76	1.36	1.45	6.0%	10.6%
National City Corp	NCTY	5.15	4.65	4.02	3.72	4.41	4.53	4.11	3.70	3.21	2.61	2.50	2.6%	7.2%
Society Corp	SOCI	5.49	4.82	4.00	2.90	4.24	4.21	3.87	3.20	*2.70	2.40	2.15	5.4%	9.0%
Taisei Trust Corp	TYCO	4.21	4.21	3.74	3.51	4.09	3.98	3.83	3.17	2.52	2.51	1.95	1.0%	8.0%
First Wisconsin Corp	FWB	3.38	3.06	3.13	3.28	3.01	2.76	2.17	1.83	1.38	1.38	0.61	4.2%	20.5%
Norins Corp	NCRP	3.77	3.56	3.39	2.68	2.48	2.91	2.62	2.14	1.86	1.76	1.46	6.4%	10.0%
Marshall & Ilsley Corp	MRSH	6.61	6.58	6.82	5.13	6.64	6.96	6.58	5.69	5.05	5.08	3.76	6.0%	9.3%

Average 10 Year CGR by Region for Top Ten Banks

Southern	**18.7%**
Western	**15.9%**
Eastern	**15.8%**
Midwestern	**14.0%**

HONORS BY REGION
(top 10 banks)

SOUTHERN

1.	Northwestern Financial	(NC)	22.8%
2.	Citizens & Southern Ga.	(GA)	21.7
3.	Louisiana Bancshares	(LA)	20.9
4.	First Florida Banks	(FL)	19.8
5.	Trust Company of Ga.	(GA)	18.9
6.	Central Fidelity Banks	(VA)	17.8
7.	First Union	(NC)	16.7
8.	Hibernia	(LA)	16.5
9.	First Atlanta	(GA)	15.9
10.	Bankers Trust So. Car.	(SC)	15.7
11.	Citizens & Southern	(SC)	15.7
	Average		18.7

EASTERN

1.	Fleet Financial	(RI)	25.2%
2.	The Conifer Group	(MA)	18.9
3.	State Street Boston	(MA)	16.0
4.	Meridian Bancorp	(PA)	15.6
5.	Multibank Financial	(MA)	14.6
6.	First Empire State	(NY)	13.9
7.	Republic New York	(NY)	13.7
8.	Citytrust Bancorp	(CT)	13.7
9.	Bank of New Eng.	(MA)	13.5
10.	First Connecticut	(CT)	12.4
	Average		15.8

WESTERN

1.	United Bancorp of Az	(AZ)	19.5%
2.	City National	(CA)	17.2
3.	Allied Bancshares	(TX)	16.7
4.	Colorado National	(CO)	15.8
5.	Security Pacific	(CA)	15.7
6.	Zions Utah	(UT)	15.4
7.	Texas Commerce	(TX)	15.3
8.	National Bank of Alaska	(AK)	14.9
9.	Puget Sound Bancorp	(WA)	14.8
10.	Peoples Bancorp	(WA)	14.0
	Average		15.9

MIDWESTERN

1.	First Wisconsin	(WI)	20.9%
2.	Citizens Fidelity	(KY)	15.5
3.	Fifth Third	(OH)	14.3
4.	First Ky. Nat'l	(KY)	13.7
5.	First of America	(MI)	13.6
6.	Banc One	(OH)	12.9
7.	Fourth Financial	(KS)	12.5
8.	Merchants National	(IN)	12.2
9.	Old Kent Financial	(MI)	12.1
10.	Boatmen's Bncshs.	(MO)	12.1
	Average		14.0

If we were to single out one company for its impressive performance, we might look to Trust Company of Georgia (now united with Sun Banks of Florida as SunTrust). The only company to appear among those with the best 5-year and 10-year records last year is back in both categories again, joined this year by C & S of Georgia. Although Trust Company is not on the "no declines" list, a 1985 performance in line with our expectation for the pre-SunTrust company would include it on the list to be compiled next year; it would also then record one of the higher 10-year (1975-1985) growth rates. Incidentally, Trust Company's absence from the current "no declines" list prompts an interesting obvservation: only three of the top ten banks in 10-year growth, and only one among those with the top ten 5-year records, were consistent enough to fall into the "no declines" category also.

Regionally, the year-to-year consistency of the top-ten 10-year lists varied. It was most pronounced in the West, where only one bank included in 1984 dropped from the top ten. The fall was mild, however, as Rainier (the dropout) came in at number eleven. The West relinquished its spot as the region with the highest average compound growth to the South; but the average for all regions improved.

After the West, the consistency among banks within the regions declined. The South sported three new members in its top ten 10-year performers. The East and the Midwest had five each; of these newcomers four -- The Conifer Group, Citytrust, First Connecticut, First of America -- were also new this year to our universe of BankScan banks, suggesting some of the previously untapped investment potential in relatively lesser-known regionals.

The possible manipulations one could perform on these statistical lists are extensive. However, if any single focus is desired, we recommend the "no declines" list, for the following reason: If we extend the regional lists of the top 10-year growth rates to include twenty companies instead of ten, then only one bank in the "no declines" category would fail to fall among the growth leaders in its region. As a measure of consistent earnings excellence, those companies with no declines comprise our true "Honor Roll".

Lawrence R. Vitale

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REVISED EARNINGS ESTIMATES & REASONS REPORT **7/18/85**

COMPANY	FROM	TO	* REASON *
CITY NATIONAL CORP. CTYN	2.70	2.75	FINE TUNING.
FIRST EMPIRE STATE CORP. FEMP	7.50	7.75	CONTINUED LOAN GROWTH, STABLE MARGINS, GOOD EXPENSE CONTROL.
FIRST HAWAIIAN INC FHWN	4.05	3.90	MARGIN PRESSURE IN FIRST QUARTER.
IRVING BANK CORP. V	5.75	6.00	STRONG GROWTH IN NON-INTEREST REVENUES FUELED BY BOND TRADING AND FOREIGN EXCHANGE GAINS.
NEW JERSEY NATIONAL NJNB	3.30	3.20	HIGHER NON-INTEREST EXPENSES THAN EXPECTED.

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